Department of Finance Canada

Departmental Performance Report

For the period ending
March 31, 2007

James M.

James M. Flaherty
Minister of Finance

Table of Contents

Section I: Overview 1

Minister's Message 1
Management Representation Statement 2
List of Abbreviations 3
Summary Information 5
Summary of Performance in Relation to the Departmental Strategic Outcome, Program Activities, Results, and Priorities 5
Overall Departmental Performance—Departmental Priorities 10
Operating Environment and Context 15
Key Partners and Clients 15
Link to the Government of Canada Outcomes 19

Section II: Analysis of Program Activities by Strategic Outcome 20

Strategic outcome 20
Program Activity 1: Tax Policy 21
Program Activity 2: Economic and Fiscal Policy 28
Program Activity 3: Financial Sector Policy 33
Program Activity 4: Economic Development and Corporate Finance 44
Program Activity 5: Federal-Provincial Relations and Social Policy 49
Program Activity 6: International Trade and Finance 57
Program Activity 7: Public Debt 64
Program Activity 8: Domestic Coinage 68
Program Activity 9: Transfer Payments to Provinces and Territories 70
Program Activity 10: International Financial Organizations 74

Section III: Supplementary Information 76

Organizational Information 76
Governance 77
Financial Performance 78
Table 1: Comparison of Planned to Actual Spending (including FTEs) 79
Table 2: Resources by Program Activity 81
Table 3: Voted and Statutory Items 84
Table 4: Services Received Without Charge 86
Table 5: Loans, Investments, and Advances (Non-budgetary) 87
Table 6: Sources of Respendable and Non-respendable Revenue 88
Table 6: Sources of Respendable and Non-respendable Revenue Continued 89
Table 7: Resource Requirements by Branch 95
Template 8-A: *User Fees Act* 98
Template 8-B: Policy on Service Standards for External Fees 99
Table 9: Major Regulatory Initiatives 100
Table 10: Transfer Payments Programs (TPP's) 108
Table 11: Horizontal Initiatives 117
Table 12: Department of Finance Canada Financial Statements (unaudited) for the year ended March 31, 2007 127
Table 13: Response to Parliamentary Committees and Audits and Evaluations for the 2006–07 Fiscal Year 169
Table 14: Sustainable Development Strategy 171
Table 15: Travel Policies 173
Comparison to the Treasury Board *Travel Directive*, Rates and Allowances 173

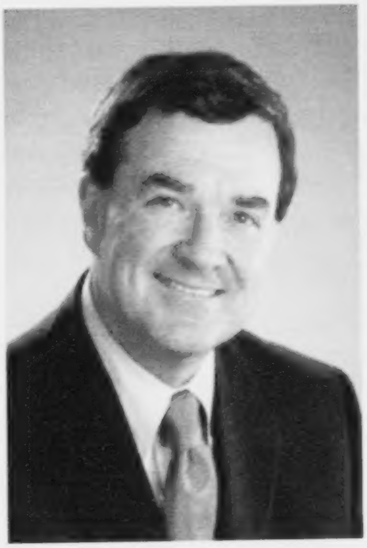
Section IV: Other Items of Interest 174

Renewal of the Human Resources Plan 174

Modernizing the Staffing Process at the Department of Finance Canada 175
Integrated Planning and Resource Allocation Framework 176
List of Statutory Reports and Other Departmental Reports 177
Contacts for Further Information and Websites 178

Section I: Overview

Minister's Message



The Honourable James M. Flaherty

The Department of Finance Canada plays a leadership role in helping the government create a strong and sustainable economic environment, resulting in increasing standards of living and improved quality of life for Canadians. Sound fiscal management and a sustainable and productive economy are keys to Canada being able to draw maximum benefit from opportunities to enhance the health and social well-being of all Canadians.

Canadians have every reason to be proud of our country's economic performance. We are experiencing the second-longest period of economic expansion in our history. Core inflation is within our target range of 1 to 3 per cent. Our unemployment rate is at its lowest level in 30 years, with more Canadians working than ever before. We are on the best fiscal footing of any country in the G7.

Our fundamentals are solid, but we cannot afford to be complacent. We need to become more innovative and competitive than ever before. We need to create a climate for even greater growth and prosperity in the years to come.

Canada's New Government is doing just that, and many of its key initiatives to address the priorities of Canadians are being spearheaded by the Department of Finance Canada. Budget 2006 delivered on many of the key priorities and commitments outlined in the Speech from the Throne, including reducing the goods and services tax and lowering personal income taxes for all taxpayers.

In November 2006, we introduced *Advantage Canada*, our long-term economic plan that will strengthen Canada's future and improve the quality of life for all Canadians.

Building on this plan, Budget 2007 marked a significant step forward. It strengthens the federation by restoring much-needed fiscal balance. It means tax relief for families and businesses, and predictable, long-term funding for post-secondary education, social assistance, and social services. Budget 2007 also includes leadership measures for reducing our federal debt and delivering support for clean air and climate change projects.

Strengthened by the achievements highlighted in this annual performance report, the Department of Finance Canada will continue to focus on key economic and social policies that will further improve the standard of living and quality of life enjoyed by Canadians, their families, and their communities in the years to come.

Management Representation Statement

I submit for tabling in Parliament the 2006–07 *Departmental Performance Report* for the Department of Finance Canada.

This document has been prepared based on the reporting principles contained in the *Guide to the Preparation of Part III of the 2006–2007 Estimates: Reports on Plans and Priorities and Departmental Performance Reports*.

- It adheres to the specific reporting requirements outlined in the Treasury Board of Canada Secretariat guidance.
- It is based on the Department's Strategic Outcome and Program Activity Architecture structure that were approved by the Treasury Board.
- It presents consistent, comprehensive, balanced, and reliable information.
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it.
- It reports finances based on approved numbers from the Estimates and the Public Accounts of Canada.

Rob Wright
Deputy Minister

List of Abbreviations

The following abbreviations are used in this report:

AML	Anti-money laundering
APEC	Asia–Pacific Economic Council
APG	Asia–Pacific Group on Money Laundering
ASU	Aircraft Sector Understanding
ATF	Anti-terrorist financing
ATSC	Air Travellers' Security Charge
CCA	Capital cost allowance
CDIC	Canada Deposit Insurance Corporation
CHT	Canada Health Transfer
CHST	Canada Health and Social Transfer
CITT	Canadian International Trade Tribunal
CLC	Canada Lands Company
CPB	Canada Premium Bond
CPI	Consumer Price Index
CPP	Canada Pension Plan
CPPIB	Canada Pension Plan Investment Board
CRF	Consolidated Revenue Fund
CSB	Canada Savings Bonds
CST	Canada Social Transfer
DTC	Disability tax credit
EBRD	European Bank for Reconstruction and Development
EDC	Export Development Canada
EITI	Extractive Industries Transparency Initiative
EU	European Union
FATF	Financial Action Task Force on Money Laundering
FIPA	Foreign Investment Protection and Promotion Agreements
FNGST	First Nations GST Agreements
FPR	Foreign property rule
FSAP	Financial Sector Assessment Program
FTA	Free Trade Agreement
G7	Group of seven leading industrialized countries
G8	G7 nations plus Russia
G10	G7 nations plus Belgium, the Netherlands, Sweden, and Switzerland
G20	The members of the G20 are the finance ministers and central bank governors of 19 countries, plus the European Union
GDP	Gross Domestic Product
GEF	Global Environment Facility
GST/HST	Goods and Services Tax / Harmonized Sales Tax
IAE	International Assistance Envelope
IDA	International Development Association
IFI	International Financial Institution
IMET	Integrated Market Enforcement Team
IMF	International Monetary Fund
M&P	Manufacturing and processing sector
METC	Medical expense tax credit
MDRI	Multilateral Debt Relief Initiative
MOU	Memorandum of understanding

NAFTA	North American Free Trade Agreement
NASTC	North American Steel Trade Committee
NICML	National Initiative to Combat Money Laundering
NRTEE	National Round Table on the Environment and the Economy
OECD	Organisation for Economic Co-operation and Development
OSFI	Office of the Superintendent of Financial Institutions
PAA	Program Activity Architecture
PRGF	Poverty Reduction and Growth Facility
R&D	Research and Development
RCM	Royal Canadian Mint
RDP	Retail Debt Program
RTA	Reciprocal taxation agreement
S&T	Science and technology
SDR	Special Drawing Right
SDS	Sustainable Development Strategy
SEA	Strategic environmental assessment
SFT	Speech from the Throne
SPP	Security and Prosperity Partnership
SR&ED	Scientific Research and Experimental Development
TCA	Tax Collection Agreement
TFF	Territorial Formula Financing
WITB	Working Income Tax Benefit
WTO	World Trade Organization

Summary Information

Department's reason for existence

The goal of the Department of Finance Canada is to foster a strong economy, resulting in higher standards of living and an improved quality of life for all Canadians.

Financial Resources ($ thousands)

Planned Spending	Total Authorities	Actual Spending
$73,952,320	$74,101,307	$73,875,346

Human Resources (Full-time Equivalents—FTEs)

Planned	Actual	Difference
901	790	111

Summary of Performance in Relation to the Departmental Strategic Outcome, Program Activities, Results, and Priorities

The following table provides an overview of the Department's strategic outcome, a listing of its ongoing priorities, and the associated financial resources for the 2006–07 fiscal year.

Strategic Outcome A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.		
Departmental Priorities	**Planned Spending**	**Actual Spending**
	Financial resources ($ thousands)	
Priority 1: Sound Fiscal Management	34,503,746	34,350,873
Priority 2: Sustainable Economic Growth	38,500	37,261
Priority 3: Sound Social Policy Framework	38,660,839	38,467,069
Priority 4: Effective International Presence	749,235	1,020,143
Total Department of Finance Canada	**73,952,320**	**73,875,346**

The following table provides a list of the program activities of the Department, with their expected results and performance status. Performance status was measured using the following four categories: Exceeded expectations; Successfully met expectations; On track to meet expectations; and Not yet met expectations. Additionally, the table demonstrates the relation of each program and activity and its expected results to the various departmental priorities. Finally, we have linked the expected results of each program activity to financial resources.

Program Activity / Expected Results	Performance Status	Priority Supported	Planned Spending	Actual Spending
			Financial resources ($ thousands)	
Tax Policy				
Competitive, efficient, and fair personal, corporate, sales, and excise tax systems	Successfully met expectations	1, 2, 3	25,899	25,405
Improved coordination of the federal tax system with those of provinces, Aboriginal governments, and other countries	Successfully met expectations	1, 2, 3	3,915	3,618
High-quality research and evaluation	Successfully met expectations	1, 2, 3	1,928	1,782
Total			**31,742**	**30,805**
Economic and Fiscal Policy				
Transparent fiscal planning and sustainable fiscal policy	On track to meet expectations	1	5,980	5,790
Effective monitoring and forecasting of economic performance	Successfully met expectations	2	5,477	6,084
Effective briefing and advice on a wide range of economic questions	Successfully met expectations	2	1,758	1,313
Understanding of and contribution to international economic policies and reforms	Successfully met expectations	4	1,758	1,313
Total			**14,973**	**14,500**
Financial Sector Policy				
Stable low-cost financing for the Government of Canada	Successfully met expectations	1	1,006	78,566
A well-functioning market in Government of Canada securities	Successfully met expectations	1	1,005	756
Effective management of Canada's official international reserves	Successfully met expectations	1	2,009	1,513
A sound borrowing framework for Crown entities	Successfully met expectations	1	2,344	2,230
A supply of coinage at a reasonable cost	Successfully met expectations	1	320	304

Program Activity / Expected Results	**Performance Status**	**Priority Supported**	**Planned Spending**	**Actual Spending**
			Financial resources ($ thousands)	
A regulatory framework that promotes the soundness, efficiency, and competitiveness of Canada's financial sector and serves the needs of individuals, business, and the economy	Successfully met expectations	2	8,415	8,255
A sound legislative and regulatory framework for federally regulated defined benefit pension plans	Successfully met expectations	3	1,201	1,082
Effective framework for investment of CPP funds * Expenditures are recovered from Human Resources and Social Development Canada	Successfully met expectations	3	0	0
A world-class anti-money laundering (AML) and anti-terrorist financing (ATF) framework	Successfully met expectations / On track to meet expectations	4	2,403	2,531
Effective support for Canada's presidency of the Financial Action Task Force	Successfully met expectations	4	2,402	1,206
Other: Advances pursuant to subsection 13(1) of the *Financial Consumer Agency Act*—A world-class AML and ATF framework	Not applicable	1		5,000
Total			**21,105**	**101,443**
Economic Development and Corporate Finance				
A thorough assessment of operating and capital funding related to economic development and policy proposals	Successfully met expectations	1	2,402	2,340
Sound advice to the Minister on economic proposals	Successfully met expectations	2	2,402	2,340
Enhanced productivity and economic growth through other governmental initiatives	Successfully met expectations	2	2,882	2,807
Improved awareness of the requirements and departmental process for conducting strategic environmental assessments	Successfully met expectations	2	320	312
Total			**8,006**	**7,799**

Program Activity / Expected Results	Performance Status	Priority Supported	Planned Spending	Actual Spending
			Financial resources ($ thousands)	
Federal-Provincial Relations and Social Policy				
Implementation of new formula for Equalization and Territorial Financing Formula	Successfully met expectations	3	9,388	5,932
Determination of the most appropriate arrangements for post-secondary education and training	Successfully met expectations	3	3,251	3,518
Effective implementation of government social policy priorities	Successfully met expectations	3	4,590	5,047
Total			**17,229**	**14,497**
International Trade and Finance				
Stronger international trading system and more open markets	Successfully met expectations	2	6,665	5,882
Policy positions and proposals that improve prospects for global economic and financial stability and better financial governance	Successfully met expectations	4	4,095	3,712
Effective international initiatives to strengthen developing economies	Successfully met expectations	4	5,237	5,309
Total			**15,997**	**14,903**
Public Debt				
Stable low-cost financing for the Government of Canada	Successfully met expectations	1	34,289,955	34,020,772
A well-functioning market in Government of Canada securities* * Expenditures are reported under the Financial Sector Policy program activity	Successfully met expectations	1	0	0
A cost-effective retail debt program	On track to meet expectations	1	105,045	87,732
Total			**34,395,000**	**34,108,504**
Domestic Coinage				
A supply of coinage at a reasonable cost	Successfully met expectations	1	83,100	135,602
Total			**83,100**	**135,602**

Program Activity / Expected Results	Performance Status	Priority Supported	Planned Spending	Actual Spending
			Financial resources ($ thousands)	
Transfer Payments				
Financial support for Canadian provinces and territories to assist them in providing public services, universally accessible health care services, post-secondary education, and social assistance	Successfully met expectations	3	38,631,828	38,441,221
Total			**38,631,828**	**38,441,221**
International Financial Organizations				
Payments to international organizations and Canadian creditors consistent with the government's commitments	Successfully met expectations	4	733,340	1,006,072
Total			**733,340**	**1,006,072**
Total Department of Finance Canada			**73,952,320**	**73,875,346**

Overall Departmental Performance—Departmental Priorities

Introduction

At the heart of its role in developing sound economic and fiscal policy for the government, the Department's plan of action for 2006–07 was guided by four key priorities: ensuring sound fiscal management; fostering sustainable economic growth; strengthening a sound social policy framework; and maintaining an effective international presence.

Sound Fiscal Management

A strong economy requires sensible, strong financial management and leadership. Canada's solid macroeconomic framework, which includes transparent fiscal management, underpins healthy economic growth and helps ensure the sustainability of our social safety net. A sound fiscal structure also includes a competitive, efficient, and fair tax system to promote economic growth, create jobs, and increase living standards in a fiscally sustainable manner.

These strengths have placed Canadians in a good position to capitalize on both domestic and global economic opportunities. This has allowed the government to reduce the public debt burden and, in turn, invest in important economic and social priorities, while also delivering significant tax relief to all Canadians.

The 2006 Speech from the Throne outlined plans to help working Canadians and their families by reducing the tax burden on all Canadians. More specifically, the Speech called for a reduction in the goods and services tax (GST) by one per cent and a lowering of taxes for the benefit of Canadians and the Canadian economy. In 2006–07, the Department of Finance Canada acted on these commitments by lowering the GST by one per cent and by announcing a number of tax reductions in Budget 2006 and in Budget 2007.

One of the Department's most significant achievements during 2006–07 was the development of *Advantage Canada*, a long-term, national economic plan. Designed to make Canada a true world economic leader, *Advantage Canada* is based on several core principles:

- focussing government on what it does best;
- creating new opportunities and choices for people to excel;
- investing for sustainable growth; and
- freeing businesses to grow and succeed.

Advantage Canada is focussed on creating five Canadian advantages that will help us improve our quality of life and succeed on the world stage.

Tax Advantage

- Canada's *Tax Advantage* will reduce taxes for all Canadians and establish the lowest tax rate on new business investment in the G7.

Fiscal Advantage

- Canada's Fiscal Advantage will eliminate Canada's total government net debt in less than a generation, creating a strong foundation on which to build sustainable prosperity.

Entrepreneurial Advantage

- Canada's *Entrepreneurial Advantage* will reduce unnecessary regulation and red tape and lower taxes to unlock business investment. By building a more competitive business environment, consumers will get goods at lower prices and Canadian businesses will be better equipped for global success.

Knowledge Advantage

- Canada's *Knowledge Advantage* will create the best-educated, most-skilled and most flexible workforce in the world.

Infrastructure Advantage

- Canada's *Infrastructure Advantage* will create modern, world-class infrastructure to ensure the seamless flow of people, goods and services across our roads and bridges, through our ports and gateways, and via our public transit.

As debt servicing is currently the largest spending program of the federal government, the prudent and effective management of the government's debt continues to be an important element of the Department's strategy for sound fiscal management.

The focus for 2006–07 was on reviewing and evaluating the effectiveness of debt management and treasury management frameworks and programs.

Sustainable Economic Growth

Ensuring the competitiveness, efficiency, safety, and soundness of Canada's financial sector and ensuring that domestic financial markets function well are necessary conditions for achieving sustainable growth in the Canadian economy. During 2006–07, the Department focussed on completing the review of the financial institutions statutes, implementing regulations associated with the new corporate governance legislation for financial institutions, preparing for a planned Financial Sector Assessment Program update by the International Monetary Fund (IMF), and contributing to an enhanced system of securities regulations in Canada.

The Department also plays a key role in the North American Security and Prosperity Partnership initiative in terms of overall budgetary considerations, as well as from a policy perspective. The Department implemented more liberal rules of origin covering more than U.S.$35 billion in total trilateral trade, which will improve the competitiveness of Canadian industries by reducing transaction costs and facilitating cross-border movement.

In November 2006, the government and the Bank of Canada announced the renewal of Canada's inflation control target. Under the renewed agreement, the inflation target will continue to be the

2 per cent mid-point of the 1 to 3 per cent inflation control range, defined in terms of the 12-month rate of change in the total Consumer Price Index. The agreement will run for a five-year period, ending December 31, 2011. Canada's policy of low and stable inflation has contributed to the country's macroeconomic advantage by maintaining interest rates at historically low levels.

Over the course of 2006–07, the Department worked with Industry Canada and other departments to implement the commitments made in *Advantage Canada* to create the Knowledge Advantage and the Entrepreneurial Advantage. The Department made important contributions to the development of a new comprehensive science and technology strategy, Mobilizing Science and Technology to Canada's Advantage, released in the spring of 2007. The strategy is a forward-looking framework that aims to generate science and technology leadership for Canada, based on strong public- and private-sector commitments to research excellence.

The Department also worked to advance a number of initiatives aimed at improving the business environment and stimulating private-sector investment and innovation. In particular, the Department worked with other departments and agencies to implement the commitments set out in *Advantage Canada* to advance regulatory reform by making government regulations more efficient, timely, and cost-effective, while continuing to protect the health and safety of Canadians.

The Department's work also led to the inclusion in Budget 2007 of funding to support streamlining the review of large natural resources projects. In addition, the Department collaborated with other federal departments and provincial ministries of Finance to help strengthen the economic union, with a focus on harmonizing tax and securities regulations, and enhancing internal trade and labour mobility across Canada.

The Department also contributed to the implementation of commitments to create a cleaner, healthier environment through policy and economic analysis in support of the government's ecoAction plan and the development of the Regulatory Framework for Air Emissions. It also assisted with the development of environmental initiatives for consideration in the context of Budget 2007.

The Department continues to explore ways to promote economic growth and productivity, including through additional investments in modern and efficient infrastructure. Reflecting consultations with provinces, territories, and other stakeholders, Budget 2007 introduced a new set of infrastructure programs for large-scale projects such as public transit and segments of the national highway system. In addition, funds have been provided to support new investments in gateways and border crossings.

Sound Social Policy Framework

The Department contributes, through its analysis and advice, to the government's efforts to meet its objectives regarding the quality of Canada's communities, health care, education, and social safety net, as well as efforts to enhance the equality of opportunity for all citizens.

The Department administers transfer programs to provinces and territories in support of this priority. In 2006–07, the government committed to renew and strengthen fiscal arrangements, including those that support the Sound Social Policy Framework. This includes the government's commitment in the 2006 budget to restore fiscal balance. It committed to consulting with provinces and territories, as well as central agencies, government departments, and external stakeholders to ensure timely decisions with respect to, and implementation of, renewed and strengthened transfers to provinces and territories.

As a result, Budget 2007 strengthened the Canada Social Transfer (CST) and the support provided for a range of social programs. The CST is to be extended to 2013–14 and will provide the provinces and territories with increased, stable, and predictable support. Increased funding includes new investments of $687 million to support the move to equal per capita cash, increased funding of $250 million annually for child care, and an additional $800 million per year for post-secondary education. The CST will be set to grow at 3 per cent annually, effective in 2009–10. Moving both the Canada Health Transfer (CHT) and the CST to equal per capita cash support will ensure comparable treatment for all Canadians under these important transfers. In addition, funding is being provided to ensure that no province or territory experiences a decline in CHT/CST cash relative to what the jurisdiction would have received in 2007–08 prior to these changes. The budget also proposes to provide additional funding of $500 million annually for labour market training, beginning in 2008–09.

Budget 2007 also renewed and strengthened the Equalization and Territorial Formula Financing (TFF) programs, based on consultations with provinces and territories, the public, academics, and other stakeholders, as well as the advice received from the Expert Panel on Equalization and Territorial Formula Financing (the O'Brien report). The main elements of the renewed Equalization program include a higher Equalization standard, a new approach to the treatment of natural resources, a fiscal capacity cap, a simplified measurement of fiscal capacity, stable and predictable payments, and fulfillment of the commitments to exclude non-renewable resource revenues and respect the offshore accords. The main elements of the proposed TFF program include a separate gap-filling formula for each territory, a simplified measurement of territorial revenues, improved incentives for territories to develop their economies and increase their own-source revenues, and a simplified estimate and payment system to increase predictability.

The Department was also instrumental in a review of legislation for financial institutions, developing policies and agreements related to the New Deal for Cities and Communities, and working with central agencies and key line departments in support of regulatory reform initiatives that promote productivity and economic growth.

Effective International Presence

In representing Canada in a wide range of international economic organizations, the Department contributes to policies and measures to increase global economic growth, promote global financial stability, encourage policies to reduce poverty in developing countries, and advance international standards to prevent abuses of the international financial system, including terrorist financing.

The Department played a key role in promoting a strong multilateral system of global economic and financial governance over the past year—most importantly supporting the Minister's participation in the G7, G8, and G20 processes. The Department also played a lead role in managing the country's activities related to international and financial organizations, such as the IMF, the World Bank, the European Bank for Reconstruction and Development, the Financial Stability Forum, and the Financial Action Task Force on Money Laundering, of which Canada served as president during the past year.

In 2006–07, the Department:

- provided leadership on the IMF's reform agenda, including the IMF quota reform, which will help ensure that the IMF remains a relevant, effective, and representative institution;
- organized and hosted an important G20 seminar to develop key policy options on issues such as the impact of high resource prices on the macroeconomic outlook, the importance of well-functioning energy and resource markets, and the need for effective management of resource endowments;
- promoted an initiative to achieve mutual recognition of securities market regulatory frameworks throughout the G7 to provide greater choice to investors and allow stock exchanges to broaden their customer base; and
- provided support to the Extractive Industries Transparency Initiative, making oil, gas, and mining activities more transparent by publicizing payments and revenues.

Department of Finance Canada officials worked with other government departments to develop a new approach to international trade policy to enhance Canadian business participation in global market opportunities. Budget 2007 announced the Global Commerce Strategy to support an expansion of our bilateral trade network, strengthening our competitive position in the U.S. market and extending Canada's reach to new markets.

Conclusion

The strategic outcome for the Department of Finance Canada is the creation of a fiscal, economic, social, and global advantage for Canada by providing appropriate policies and sound advice with respect to economic, social, and financial conditions and the government's overall agenda. The Department continues to work to maintain a balanced approach that will ensure a sustainable fiscal structure and encourage a more productive, competitive, and dynamic Canada while, at the same time, supporting and sustaining Canadian society.

In spite of many challenges during the 2006–07 fiscal year, the Department continued to make significant progress on its ongoing commitment to foster a strong economy and generate a higher standard of living and an improved quality of life for all Canadians.

This approach has produced real benefits for Canadians. We have a strong, vibrant, and growing economy that is a leader among major industrialized nations. It has allowed the government to make real progress in creating an environment that builds productivity growth through corporate tax cuts, investments in infrastructure, skills training, and one of the most generous tax regimes in the world in support of research and development. These initiatives will help Canada successfully compete in the increasingly competitive global marketplace.

Operating Environment and Context

Mandate

The Department is committed to making a difference for Canadians by helping the Government of Canada develop and implement strong and sustainable economic, fiscal, social, security, and financial-sector policies and programs.

The Department serves as the government's primary source of analysis and advice on the economic, fiscal, and tax implications of key government priorities. Its responsibilities include preparing the federal budget, developing tax and tariff policy and legislation, managing federal borrowing on financial markets, administering major transfers of federal funds to the provinces and territories, developing regulatory policy for the country's financial sector, and representing Canada within international financial institutions.

Mission

The Department's mission is to support the Minister of Finance by providing the best possible analysis and policy advice on economic, fiscal, social, and financial issues; implementing government decisions in a timely and efficient manner; and communicating government decisions in the clearest way possible, within and outside government. Its mission is also to act as an effective conduit for the views of participants in the economy from all parts of Canada and to maintain high-quality support systems and development programs to carry out the Department's functions.

Key Partners and Clients

An important component of the work conducted by the Department involves consultation and collaboration with partners in both the public and private sectors. Its primary partners and clients include the following:

The government, Cabinet, and the Treasury Board

The Department provides analysis, advice, and recommendations regarding economic, social, federal-provincial, and other financial affairs and tax matters. It also provides instructions for drafting legislation in many of these areas.

Parliament and parliamentary committees

The Department acts as the primary sponsor of bills on taxation, federal-provincial/territorial transfers, and financial matters and manages them through the parliamentary process. It also supports the Minister of Finance in the fulfilment of his or her parliamentary responsibilities.

The public and Canadian interest groups

The Department supports an expanded program of public information and consultation. This includes responding to requests for information and providing opportunities for Canadians to participate in consultations on key economic, social, fiscal, and tax issues.

Departments, agencies, and Crown corporations

The Department plays an active role in encouraging coordination and harmony among all federal initiatives that affect the economy, the financial sector, and financial markets.

Provincial and territorial governments

The Department develops and administers transfer payments in support of a range of provincial and territorial programs and tax collection agreements for most provinces and territories. The Department works with provinces and territories on fiscal, taxation, financial-sector, and other issues of concern to all governments. It also works with these other jurisdictions as joint stewards of the Canada Pension Plan (CPP) to ensure that the CPP remains financially secure and stable.

Financial market participants

The Department deals with issues affecting federal financial institutions. It develops the rules and regulations that govern these institutions so they remain safe and financially sound and are responsive to consumers' needs. The Department also deals on an ongoing basis with a range of market participants, including banks, securities dealers, and investors, in fulfilling its responsibility for managing the public debt and international reserves.

International economic and finance community

The Department plays a key role in promoting a strong multilateral system of global economic and financial governance. The most important role in this regard is supporting the minister's participation in the G7, G8, and G20 processes. The Department also has a lead role in managing the country's activities related to international and financial organizations, such as the IMF, the World Bank, the European Bank for Reconstruction and Development, the Financial Stability Forum, and the Financial Action Task Force on Money Laundering, of which Canada served as president during the past year. The Department also plays an important role in other organizations, such as the Organisation for Economic Co-operation and Development, and the World Trade Organization.

International trade community

The Department plays an important role in negotiating Canada's trade arrangements with other nations and monitoring how those arrangements serve Canada's interests.

Partnerships, consultation, and collaboration

An important component of the work conducted by the Department involves consultation and collaboration with partners in both the public and private sectors. The operating environment of the Department is characterized by the following:

- a strong commitment to consultation, coordination, and collaboration with a wide range of partners and client groups;
- a dynamic engagement with a rapidly changing global economy; and
- a strong commitment to accountability and risk management in its day-to-day business.

Accountability and risk management

The Department accomplished a great deal in an environment that presents unique risks and challenges. The implementation of reactive policy initiatives is often in response to priorities generated outside of the Department. An additional source of risk lies in the fact that many parts of the Department rely on a relatively small number of analysts. Given the wide range of policy areas covered, this affects the ability to deliver on plans. However, with effective recruitment and succession planning (including at the executive level), the provision of an attractive work environment, the recruitment of new employees and their training, as well as the ongoing identification of suitable candidates for potential vacancies, these risks were mitigated in 2006–07.

Changes in government priorities over the period represent another variable beyond the control of the Department, as well as delays and particular challenges faced by other departments. To address this, work was done with other central agencies and affected departments to devise strategies to minimize these delays and their potentially negative impacts. The Department maintained constant contact with other central agencies and departments and monitored progress in each priority area. When required, recommendations were made to other departments and central agencies, as well as other stakeholders, on corrective actions that could be taken to ensure successful outcomes on priority areas. In this way, fiscal impediments were minimized.

The Department must manage the financial risks associated with the government's financial assets and liabilities. It must be ready to respond to economic and financial developments by taking prompt and decisive action to mitigate, where appropriate, their effects on the Canadian economy and fiscal framework.

The Department is also committed to ensuring that all of its employees and activities, at the personal, professional, and organizational levels, meet the highest standards of ethical conduct and accountability.

The Internal Audit and Evaluation Division (IAED) is responsible for developing risk-based audit and evaluation plans, as well as for conducting internal audit and evaluation engagements that meet professional standards. Internal audits and evaluations are selected based on potential risks and exposures and are identified annually in the respective risk-based audit and evaluation plans, which are approved by the Audit and Evaluation Committee chaired by the deputy minister. The Committee also reviews and approves audit and evaluation reports and their corresponding management action plans.

The Treasury Board *Policy on Internal Audit*, which came into effect on April 1, 2006, significantly increases the requirements of deputy heads, audit committees, and internal audit functions in the federal government. In response to the Policy and additional requirements embedded in the *Federal Accountability Act*, the Department is making significant efforts to strengthen internal audit capacity and delivery processes.

Specifically, IAED has developed a comprehensive three-year plan to implement the structure and activities required to adhere to the Policy. In 2006–07, significant progress was made to develop the internal audit capacity within the Division. IAED will continue to build this capacity to ensure that the Department has a sufficient, competent, and professional internal audit function in place. Regarding program evaluation, a needs assessment review is being undertaken to identify and assess program evaluation requirements for the Department.

The government also regularly assesses its treasury management frameworks and programs. External evaluations are carried out as part of the Department's Treasury Evaluations Program (TEP), which started in the early 1990s. The objectives of the TEP are to assess past policy and operational decisions, relative to their objectives and the evolving standards and practices of other comparable entities, and to support good governance by providing decision-making information for management, as well as public transparency and accountability on outcomes.

In the context of the TEP, an evaluation of the treasury risk management framework at the Department of Finance Canada is currently underway. The evaluation will assess the effectiveness of the current framework in controlling identified risks and its comprehensiveness and completeness in identifying, measuring, controlling, and reporting on the full range of pertinent risks. The treasury risk management evaluation is expected to be completed as early as early as the fall of 2007.

International engagement

The Department plays an active and leading role in representing Canada internationally. The Department supports the Minister of Finance's involvement in the G7 process, as well as his involvement in other key ministerial forums, including the G8 and G20 finance ministers' processes, and IMF and World Bank meetings. These and similar processes are important forums for exchanging views and forging consensus on measures to strengthen global economic growth, promote financial stability, and reduce global poverty.

The Department's activities are undertaken in the context of a rapidly integrating, technology-driven, global economy. Events that take place far from Canada can have a powerful impact, both adverse and beneficial, on Canada's economy. To support its work on international economic issues, the Department holds extensive consultations not only within the federal government but also with provincial governments, the private sector, civil society, and the Canadian public.

Link to the Government of Canada Outcomes

The following table links the Department's Strategic Outcome, Priorities, and Program Activities in a way that illustrates how the Department's efforts more broadly support the Government of Canada Outcome Areas.

Strategic Outcome	**To create a strong and sustainable economic environment, resulting in increasing standards of living and improved quality of life for Canadians.**				
	Ongoing Priorities				
Program Activity	**Sound Fiscal Management**	**Sustainable Economic Growth**	**Sound Social Policy Framework**	**Effective International Presence**	**Government of Canada Outcome Area Supported**
1. Tax Policy	√	√	√		Strong economic growth
2. Economic and Fiscal Policy	√	√		√	Strong economic growth
3. Financial Sector Policy	√	√	√	√	A fair and secure market place
4. Economic Development and Corporate Finance	√	√			Strong economic growth
5. Federal-Provincial Relations and Social Policy			√		Strong economic growth
6. International Trade and Finance		√		√	A prosperous Canada through global commerce
7. Public Debt	√				All outcomes
8. Domestic Coinage	√				Government affairs
9. Transfer Payments to Provinces and Territories			√		Strong economic growth Healthy Canadians
10. International Financial Organizations		√		√	Global poverty reduction through sustainable development

Section II: Analysis of Program Activities by Strategic Outcome

Strategic outcome

In support of its mission, the Department has one strategic outcome:

> *A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.*

During fiscal year 2006–07, the Department revised its strategic outcome to better reflect the clear focus of departmental efforts aimed at improving the well-being of all Canadians. Clarifying the focus will enable the Department to develop more appropriate performance measurement indicators for the strategic outcome. An enhanced performance measurement framework, including indicators for the strategic outcome, is expected to be completed during the 2007–08 fiscal year. In addition, the Department has recently revised its Program Activity Architecture, which will be reflected in its next report on plans and priorities and the corresponding departmental performance report.

Program Activity 1: Tax Policy

The Tax Policy program activity develops and evaluates federal taxation policies and legislation and provides advice and recommendations for changes aimed at improving the tax systems while raising the required amount of revenue to finance government priorities. This program focusses on the following areas: personal income tax, business income tax, and sales and excise tax. The program is also involved with negotiating tax treaties, tax policy research and evaluation, as well as federal-provincial/territorial and federal-Aboriginal tax coordination.

Financial Resources: ($ thousands)

Planned Spending	Authorities	Actual Spending
31,742	33,317	30,805

Human resources (FTEs)

Planned	Actual	Difference
268	234	34

Tax Policy Expected Results	Priorities Supported
Competitive, efficient, and fair personal, corporate, sales, and excise tax systems	Sound Fiscal Management Sustainable Economic Growth Sound Social Policy Framework
Improved coordination of the federal tax system with those of provinces, Aboriginal governments, and other countries	
High-quality research and evaluation	

The Tax Policy program activity supports and contributes to the Department's strategic outcome and priorities by raising sufficient revenues to pay for public services, including social programs (e.g. universal health care and public safety and security) and strategic investments in areas that promote a more competitive and productive Canadian economy (e.g. education and training, basic scientific research, and infrastructure). At the same time, however, revenues must be raised in a manner that keeps tax burdens and marginal tax rates low to provide incentives to work, save, and invest and to allow Canadian businesses to successfully compete for investment in an increasingly integrated global capital market. Tax revenues must also be raised in a fair manner so that taxpayers in similar circumstances face similar tax treatment, ensuring that the tax burden is shared in accordance with the taxpayers' ability to pay. Where appropriate, the tax system may also be used to pursue specific economic and social objectives, such as saving for post-secondary education, promoting charitable giving, encouraging research and development, and helping protect the environment. Regardless of their objective, proposed policies are reviewed for gender and environmental impacts.

In order to ensure that the tax system functions efficiently, the Tax Policy program activity works with provinces, territories, Aboriginal governments, and other countries to improve tax policy coordination. It also undertakes ongoing analysis of the impact of both new and existing tax policy initiatives.

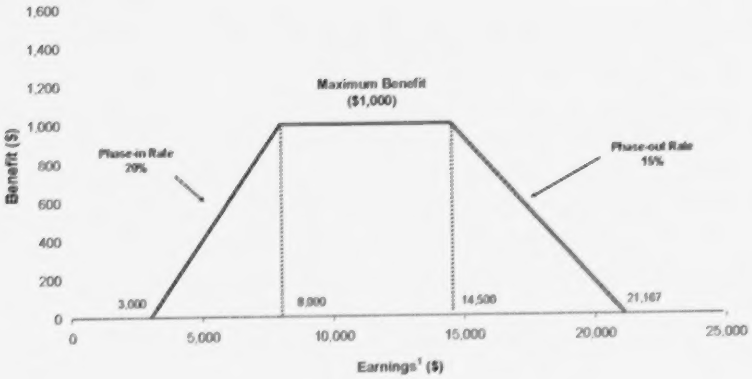
1. Competitive, efficient, and fair personal, corporate, sales, and excise tax systems

The Tax Policy program carried out a number of tax initiatives during 2006–07 aimed at improving the competitiveness, efficiency, and fairness of the personal, corporate, sales, and excise tax systems. In particular, Tax Policy program staff provided sound and timely advice and recommendations to the Minister of Finance and senior officials in preparation for the 2006 and 2007 budgets on ways to make the tax system more attractive for Canadians to work, save, and invest; to improve the competitiveness, efficiency, and fairness of the tax system; and to support other government priorities.

During 2006–07, the Tax Policy program activity helped implement individual and business tax relief that will benefit all Canadians and enhance the efficiency and competitiveness of the tax system. Key broad-based measures included reducing the GST by one percentage point; raising the amount of the basic personal exemption; reducing the general corporate income tax rate; eliminating the corporate surtax for all corporations; and accelerating the elimination of the federal capital tax. The Tax Policy program also developed proposals to align capital cost allowance rates with the useful life of manufacturing buildings, computers, and other assets, as well as a proposal to put in place a temporary incentive for investment in manufacturing and processing (M&P) machinery and equipment, which will assist the M&P sector in restructuring to meet the challenges it is currently facing.

The Tax Policy program activity also supported the introduction of the Working Income Tax Benefit (WITB), fulfilling the government's commitment, announced in *Advantage Canada* and noted in the 2006–07 *Report on Plans and Priorities* (RPP), to help people over the "welfare wall" and make work pay for low- and modest-income Canadians. The WITB will help make work more rewarding and attractive for an estimated 1.2 million Canadians already in the workforce, thereby strengthening their incentive to stay employed. It is also estimated that the WITB will encourage close to 60,000 people to enter the workforce. Single parents and couples will be eligible to receive up to $1,000 under the WITB. The chart below provides and example of the benefits will be made available in 2007 to single parents and couples with family earnings of $3,000 or more and net income of less than $21,167.

Working Income Tax Benefit Entitlement, 2007
Single Parents and Couples



[1] Phase-out based on net family income.

Source: Department of Finance Canada, *The Budget Plan 2007*, March 19, 2007

As indicated in Budget 2007, in recognition that provinces and territories play a key role in providing basic income support to low-income Canadians, the government indicated that it was prepared to consider province- or territory-specific changes to the design of the WITB to better harmonize it with existing programs, conditional on four broad principles stated in Budget 2007. The Department of Finance Canada has been engaged in discussions with provinces and territories that have expressed interest in this option, with the objective of having administrative agreements finalized as early as the fall of 2007.

As part of its role in maintaining an efficient tax structure, in 2006–07 the Tax Policy program activity announced goods and services tax / harmonized sales tax (GST/HST) measures for financial institutions. Draft legislation was released in 2007 to propose to address advantages that currently exist in favour of imported financial services over comparable domestic services.

In addition, as a result of the GST rate reduction, certain technical adjustments were made to the Air Travellers' Security Charge rates after July 1, 2006. These were required in order to ensure that consumers receive the full benefit of the GST rate reduction.

During 2006–07, the Tax Policy program conducted analysis and provided advice to Canada's New Government on ways to enhance the fairness of the federal tax system by making it more neutral across business structures and sectors. In the fall of 2006, the Tax Policy program identified potential initiatives for the government to address the accelerating trend of corporate conversions to the income trust structure that, if left unchecked, would have resulted in significant federal revenue loss. On October 31, 2006, the government announced a distribution tax on publicly traded income trusts and limited partnerships as part of its Tax Fairness Plan, restoring balance and fairness to the tax system by levelling the playing field between income trusts and corporations. In addition, as part of the Tax Fairness Plan, the government reduced the general corporate income tax rate by one half percentage point as of January 1, 2011, to

18.5 per cent; increased the Age Credit Amount by $1,000, benefiting low- and middle-income seniors; and permitted income splitting for pensioners beginning in 2007.

To reflect the new economic and environmental challenges that face us today, Budget 2007 rebalanced the tax system to encourage investment by the oil sands and other sectors in clean energy, while phasing out the accelerated capital cost allowance (CCA) for general investment in the oil sands. This will improve fairness and neutrality among the oil sands and other sectors, particularly the oil and gas and renewable energy sectors. As part of this rebalancing, Budget 2007 announced that the existing accelerated CCA provided under Class 43.2 for energy generation equipment that uses renewable energy sources, waste fuels, or fossil fuels efficiently will be extended to 2020 and expanded to include wave and tidal energy and additional solar energy and waste-to-energy technologies. These measures will help ensure that the tax system contributes to sustainable economic growth.

2. Improved coordination of the federal tax system with those of provinces, Aboriginal governments, and other countries

The Tax Policy program also contributed to the expected result of improving coordination of the federal tax system with those of the provinces, territories, Aboriginal governments, and other countries during 2006–07. For example, the Tax Policy program regularly works with Aboriginal groups and governments to manage the First Nations sales tax, the First Nations goods and services tax (FNGST), and the First Nations personal income tax (FNPIT) administration agreements. In 2006–07, the Tax Policy program concluded an FNGST administration agreement with the Tsawout First Nation in British Columbia. The FNGST provides First Nations with an additional revenue source for expenditures, supports self-government, and enhances accountability in First Nations communities. The federal government also benefits through these agreements by way of a more uniform sales tax system and better compliance. A tax administration agreement in respect of personal income tax was also concluded in 2006–07 with the Kwanlin Dun First Nation.

During 2006–07, the Tax Policy program activity also concluded a memorandum of understanding with the Government of Ontario that will lead to the implementation of the Corporate Income Tax Collection Agreement that will take effect with the 2009 tax year. The Agreement will reduce compliance costs for businesses and generate overall reductions in administrative costs.

The Tax Policy program also works with governments of other countries to review, improve, and expand Canada's network of international tax treaties and seeks to obtain tax information exchange agreements with non-tax treaty jurisdictions. In 2006–07, new tax treaties entered into force with the Republic of Korea (December 18, 2006) and Finland (January 17, 2007). A major new protocol to the Canada–U.S. Tax Treaty was signed by Minister Flaherty and the U.S. Treasury Secretary, Henry Paulson, on September 21, 2007. Negotiations were also held with Mexico, Greece, Malaysia, and Spain during the course of the fiscal year.

3. High-quality research and evaluation

The Tax Policy program activity also conducts high-quality research and evaluation of various personal, corporate, sales, and excise tax measures.

In 2006–07, the Tax Policy program met a key commitment announced in the 2006–07 RPP to publish two reports on the impact of the tax system on aspects of the Canadian economy. One of the reports compared marginal effective tax rates (METRs) across countries in the manufacturing sector and their effect on business investment. The other report examined the impact of the income tax system on the decision of young Canadians to undertake post-secondary education. The research on METRs was particularly important because it informed the government's commitment, announced in *Advantage Canada*, to establish the lowest tax rate on new business investment in the G7. It also met another commitment noted in the 2006–07 RPP to undertake research to support future tax policy initiatives, including the expanded use of the METR methodology.

The reports are available in the 2006 Tax Expenditures and Evaluations publication available at http://www.fin.gc.ca/toce/2006/taxexp_e.html.

Performance measurement

Expected Results / Performance Measurement	**1. Competitive, efficient, and fair personal, corporate, sales, and excise tax systems**	**2. Improved coordination of the federal tax system with those of provinces, Aboriginal governments, and other countries**	**3. High-quality research and evaluation**
Performance Indicators	Proposals to improve the competitiveness, efficiency, and fairness of the personal, corporate, sales, and excise tax systems The amount of tax revenue raised	Active negotiation of additional tax administration agreements with provincial and Aboriginal governments Effective network of tax treaties with other countries Effective meetings of the Federal-Provincial Tax Committee	Number and effect of research studies and evaluation reports
Data Sources	Federal budgets, legislation, regulations, press releases, tax treaties, the Department's Marginal Effective Tax Rate models, Public Accounts, tax evaluation, and tax expenditure reports	Federal-provincial agreements, federal-provincial meetings, federal-Aboriginal agreements, and federal-Aboriginal negotiations	Working papers and models developed, research papers written
Frequency	Annual	Annual	Annual
Target	Proposals in the budget and throughout the year, as required, to implement the government's tax policy agenda and maintain a competitive, effective, and fair tax system	Increased number of tax agreements signed	Two published reports per year
Target Date	As required	Ongoing	Ongoing
Actual	2006 and 2007 budgets, *Advantage Canada*, *Canada Gazette*, 2006 Tax Expenditures and Evaluations	Memorandum of Agreement (MOA) toward a single corporate income tax administration with Ontario FNGST administration agreement (Tsawout First Nation); FNPIT administration agreement (Kwanlin Dun First Nation); *Canada Gazette*	2006 Tax Expenditures and Evaluations

Expected Results / Performance Measurement	**1. Competitive, efficient, and fair personal, corporate, sales, and excise tax systems**	**2. Improved coordination of the federal tax system with those of provinces, Aboriginal governments, and other countries**	**3. High-quality research and evaluation**
Date of Actual	May 2, 2006 (Budget 2006), November 2006 (*Advantage Canada*), December 18, 2006 (tax treaty with the Republic of Korea), January 17, 2007 (tax treaty with Finland), March 2007 (2006 *Tax Expenditures and Evaluations*), March 19, 2007 (Budget 2007)	October 2006, MOA signed with Ontario October 2006 (Tsawout First Nation FNGST agreement), December 2006 (Kwanlin Dun First Nation FNPIT agreement), December 18, 2006 (tax treaty with the Republic of Korea), January 17, 2007 (tax treaty with Finland)	March 2007
Performance Status	Successfully met expectations	Successfully met expectations	Successfully met expectations

Program Activity 2: Economic and Fiscal Policy

This program activity analyzes Canada's economic and fiscal situation, as well as the economic and fiscal positions of other levels of government and in other countries. It advises on the government's economic policy framework, its budget planning framework, and its spending priorities. This program is also responsible for monitoring and preparing forecasts of Canada's economic and fiscal position and plays a lead role in the management of the government's fiscal framework. In addition, the program provides analytical support on a wide range of economic and financial issues related to the government's macroeconomic policies. This program is necessary to help ensure that fiscal planning in the Government of Canada is transparent and supports long-term fiscal sustainability.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
14,973	15,715	14,500

Human resources (FTEs)

Planned	Actual	Difference
122	113	9

Economic and Fiscal Policy Expected Results	Priority Supported
Transparent fiscal planning and sustainable fiscal policy	Sound Fiscal Management
Effective monitoring and forecasting of economic performance	Sustainable Economic Growth
Effective briefing and advice on a wide selection of economic questions	
Understanding of and contribution to international economic policies and reforms	Effective International Presence

The work under this program activity contributes to the Department's priority of sound fiscal management. Sound fiscal management includes transparent budget planning, controlling expenditures, reducing federal debt, and directing higher-than-expected surpluses to the priorities of Canadians. Sound fiscal management also involves an effective monitoring and forecasting of economic performance. Maintaining sound fiscal management allows the government to reduce the amount of money that it must spend to pay interest on its debt, which in turn frees resources that can be used to reduce personal income taxes.

This program also supports the Department's priority of sustainable economic growth by providing analysis and advice on policy options that promote long-term growth. Sound economic policies enable the Canadian economy to perform well despite various economic shocks. Moreover, the Department consults with officials from the OECD and the IMF to share views on economic developments in Canada and the world, as part of a broad, ongoing effort to promote increased global growth and, given the openness of the Canadian economy, improve the growth potential of Canada.

Results

1. Transparent fiscal planning and sustainable fiscal policy

The government has taken significant steps to ensure that fiscal planning is transparent and enhances accountability and that fiscal policy remains sustainable.

In 2006–07, the Department continued to monitor, assess, and report on the government's fiscal position through the *Economic and Fiscal Update*, the *Budget Plan* and the monthly *Fiscal Monitor*. Fiscal year 2006–07 marked the first year the Department provided quarterly updates of the fiscal outlook for the year in progress, as committed to in the *Federal Accountability Action Plan*.

In the fall, the government set out a plan for achieving a fiscal advantage in *Advantage Canada*—the government's long-term economic agenda released alongside the 2006 *Economic and Fiscal Update*. As part of this fiscal advantage, the government proposed an objective for the country as a whole of eliminating Canada's total government net debt in less than a generation. For its part, the government advanced its commitment to reduce the federal debt-to-GDP ratio to 25 per cent by one year, to 2012–13.

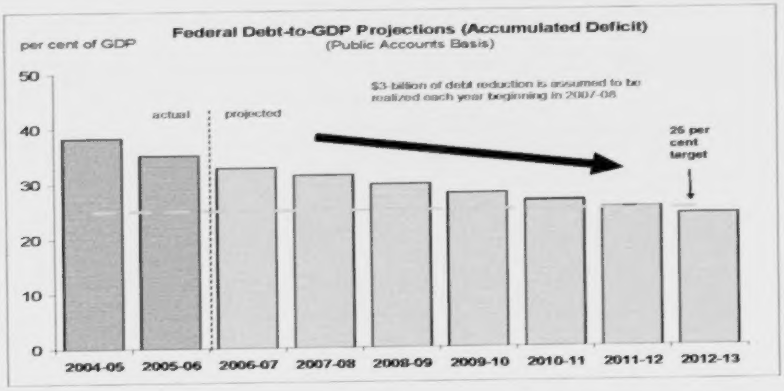
To complement the goal of eliminating the country's net debt, the government announced in Budget 2007 that it would publish a comprehensive fiscal sustainability and intergenerational report with the 2007 *Economic and Fiscal Update*. The report will provide a broad analysis of current and future demographic changes and the implication of these changes for Canada's long-term economic and fiscal outlook

To ensure that Canadians benefit directly from reduction in the federal debt, the government committed in Budget 2007 to setting out a tax back guarantee in legislation. Under the tax back guarantee, the effective interest savings from debt reduction each year will be dedicated to personal income tax reductions. The tax back guarantee provides a new approach to handling unanticipated surpluses by ensuring Canadians benefit directly from unplanned surpluses through accelerated debt and personal income tax reductions.

The government's commitment to reduce Canada's debt burden also reflects an ongoing commitment to spending control. In 2006–07, the Department contributed to the exercise led by the Treasury Board of Canada Secretariat, which delivered over $1 billion of ongoing savings for 2006–07 and 2007–08. In *Advantage Canada*, the government committed to outlining the new Expenditure Management System focussed on good management and value-for-money. *Advantage Canada* also established a commitment to keep the rate of growth of program spending, on average, below the rate of growth of the economy.

These actions contributed to a strong fiscal performance in 2006–07. The Government of Canada recorded a budgetary surplus in 2006–07. According to OECD estimates, Canada is currently the only G7 country in a surplus budget position, and it is expected to remain so in 2007 and 2008.

The federal debt has declined steadily since 1996–97 and, combined with Canada's strong economic growth, has resulted in a significant decline in the federal debt-to-GDP ratio. The government is on track to meet the medium-term objective of reducing the ratio to 25 per cent by 2012–13. The chart below shows the historical path and 2007 budget projections of the federal debt-to-GDP ratio. Further information on the government's fiscal performance can be found in the *Annual Financial Report of the Government of Canada* at http://www.fin.gc.ca/purl/afr-e.html.



2. Effective monitoring and forecasting of economic performance

The Department continued to provide analysis and forecasting of economic activity in Canada and abroad. This information includes, among other things, chapters on economic developments and outlook in the *Economic and Fiscal Update* and the Budget Plan.

As noted in Budget 2007, Canada's employment performance is the best it has been in 30 years. Canadian employment grew by almost 350,000 in 2006. In addition, close to 200,000 jobs have been created in the first half of 2007. Since the beginning of 2006, about three quarters of the employment gains have been in full-time positions. As a result, the unemployment rate in June 2007 was 6.1 per cent, matching a 32-year low. Moreover, the share of the Canadian population with a job was at a record high.

Canadian economic growth slowed during 2006. Much of the slower growth reflects a decline in manufacturing activity, which was due to slower U.S. demand and the effect of the appreciation of the Canadian dollar, as well as structural adjustments in the automobile and textile sectors. In Budget 2007, the Department presented an analysis of trends and developments in the manufacturing sector.

Budget 2007 also presented an analysis of the risks to the economic and fiscal projections over the budget-planning horizon. The principal risk to the Canadian economy is that recent weakness in economic growth reflects lower underlying productivity performance, which could have negative implications for Canada's future growth potential. In terms of external risks, there is the possibility that higher oil prices could continue to push up the Canadian dollar, making Canadian exports less competitive. There remains a risk that the weak U.S. housing market could negatively impact U.S. consumer demand, which would also hurt Canadian exports.

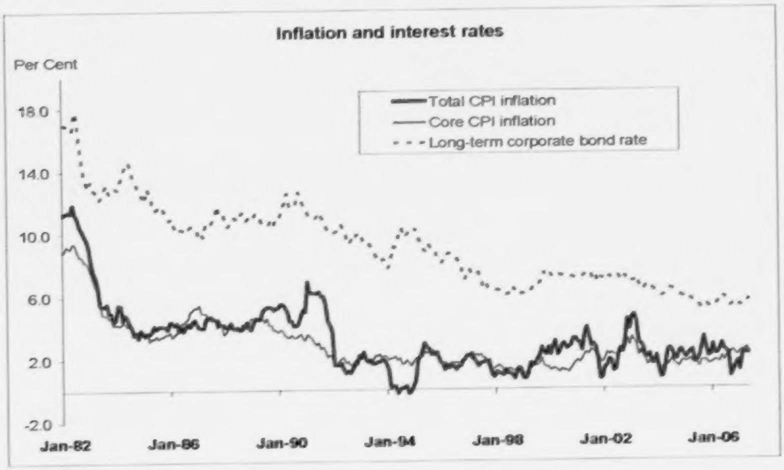
In preparing the *Economic and Fiscal Update* and the Budget Plan, the Department conducted a survey of private-sector forecasters and met with the chief economists of the major chartered banks and major private-sector economic forecasting firms to agree on a set of economic assumptions that were used to develop fiscal projections.

3. Effective briefing and advice on a wide selection of economic questions

The Department continued to conduct long-term analysis and research on complex economic questions and to provide policy advice on economic issues. This information includes among other things briefing notes to the Minister and various publications, such as working papers.

In November 2006, the Department released a long-term economic plan, *Advantage Canada*, that is focussed on promoting five Canadian advantages that will help Canadians improve their quality of life and succeed on the world stage. It will create jobs, help entrepreneurs start businesses, and provide the wealth Canada needs to invest in health and other priorities. The plan is designed to serve as a framework for government decision making for years to come.

In November 2006, the government and the Bank of Canada also announced the renewal of Canada's inflation control target. Under the renewed agreement, the inflation target will continue to be the 2 per cent mid-point of the 1 to 3 per cent inflation control range, defined in terms of the 12-month rate of change in the total Consumer Price Index (CPI). The agreement will run for a five-year period, ending December 31, 2011. Canada's policy of low and stable inflation has contributed to Canada's macroeconomic advantage by maintaining interest rates at historically low levels. Low interest rates provide strong support to interest-sensitive sectors such as housing, consumer spending, and business investment. The following chart shows how inflation and interest rates have remained at low levels in recent years.



The Department continued to participate in semi-annual Federal-Provincial Continuing Committee of Officials meetings to discuss and analyze regional economic developments and trends with provincial authorities.

Overall, the Department's activity contributes to Canada's strong economic performance. The Canadian economy continued to grow at a relatively robust pace of 2.8 per cent in 2006, second only to the U.S. among G7 countries, and 0.3 per cent higher than the G6 average (that is, the G7 excluding Canada). In its spring 2007 *World Economic Outlook*, the IMF projected Canada's real GDP growth to slow to 2.4 per cent in 2007, second to the United Kingdom, and 2.9 per cent in 2008, first among G7 countries.

4. Understanding of and contribution to international economic policies and reforms

Based on their consultations with the Department and other government agencies, the OECD and the IMF prepared detailed reports, the *Economic Survey* and the *Staff Report*, respectively, on economic and policy issues in Canada. In 2006–07, both reports on Canada were largely positive and supportive, as they have been for several years.

These consultations are part of the Department's ongoing effort to monitor and promote increased global growth and, given the openness of the Canadian economy, improve the growth potential of Canada. However, given the international dimension of this outcome, the Department can have only a limited impact on the expected result.

Performance measurement

Expected Results / Performance Measurement	**1. Transparent fiscal planning and sustainable fiscal policy** **2. Effective monitoring and forecasting of economic performance**	**3. Effective briefing and advice on a wide selection of economic questions** **4. Understanding of and contribution to international and economic policies and reforms**
Performance Indicators	Federal debt as a share of nominal GDP	Canada's real GDP growth relative to the G6 average (G7 excluding Canada)
Data Sources	Annual Financial Report	IMF *World Economic Outlook* and OECD *Economic Outlook*
Frequency	Annually	Semi-annually
Target	Reduce the federal debt-to-GDP ratio to 25% by 2012–13	Annual growth rate above the G6 average
Target Date	Ongoing	Ongoing
Actual	Estimated federal debt-to-GDP ratio of 32.8% for 2006–07	G6 average GDP growth was 2.5% in 2006, while Canada's rate was 2.8%
Performance Status	1. On track to meet expectations 2. Successfully met expectations	3. Successfully met expectations 4. Successfully met expectations

Program Activity 3: Financial Sector Policy

The aim of this program activity is to ensure the competitiveness, efficiency, safety, and soundness of Canada's financial sector and to ensure that domestic financial markets function well in order to achieve sustainable growth in the Canadian economy. This program provides analysis of Canada's financial services sector and financial markets, as well as developing the legislative and regulatory framework governing federally chartered financial institutions (banks, trust companies, insurance companies, and cooperative credit associations) and federally regulated private pension plans. This program is also responsible for issues related to AML and ATF and the federal government's relations and commitments with foreign governments in the area of trade in financial services.

Financial resources ($ thousands)[1]

Planned Spending	Authorities	Actual Spending
21,105	173,561	101,443

Human resources (FTEs)

Planned	Actual	Difference
146	129	17

Financial Sector Policy Expected Results	Priority Supported
Stable, low-cost financing for the Government of Canada	Sound Fiscal Management
A well-functioning market in Government of Canada securities	
Effective management of Canada's official international reserves	
A sound borrowing framework for Crown entities	
A supply of coinage at a reasonable cost	
A regulatory framework that promotes the soundness, efficiency, and competitiveness of Canada's financial sector and serves the needs of individuals, business, and the economy	Sustainable Economic Growth
A sound legislative and regulatory framework for federally regulated defined benefit pension plans	Sound Social Policy Framework
Effective framework for investment of CPP funds	
A world-class AML and ATF framework	Effective International Presence
Effective support for Canada's presidency of the Financial Action Task Force	

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[1] The "Authorities" figure for the Financial Sector Policy program activity includes a number of items not included in "Planned Spending": $76 million for net loss on exchange in relation to re-evaluations of cross-currency swaps; $69 million of unused authority for payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment Corporation, and Northland Bank; $5 million for advances to the Financial Consumer Agency of Canada; and $2 million for payment of liabilities previously transferred to revenues. The variance between "Authorities" and "Actual Spending" is primarily attributable to $69 million of unused authority for payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment, and Northland Bank. Other factors contributing to the variance include lower-than-expected costs for the final year of the presidency of the Financial Action Task Force and internal services surpluses, as explained in Note 1 under Table 1.

Debt service is the largest spending program of the federal government. The prudent and effective management of the government's debt is an important element of the Department's strategy for sound fiscal management. For more information on debt management, see http://www.fin.gc.ca/toce/2005/dmr05_e.html. The focus of this activity for 2006–07 has been on continuing to review and evaluate the effectiveness of debt management and treasury management frameworks and programs, while pursuing improvements to the borrowing framework for major government-backed entities.

Ensuring the competitiveness, efficiency, safety, and soundness of Canada's financial sector and ensuring that domestic financial markets function well are conditions necessary to achieving sustainable growth in the Canadian economy. For 2006–07, the focus has been on completing the 2006 review of the financial institutions statutes, implementing regulations associated with the new corporate governance legislation for financial institutions, preparing for a planned Financial Sector Assessment Program (FSAP) update by the IMF as a follow-up to the assessment conducted in 1999, and contributing to an enhanced system of securities regulations in Canada.

A properly designed private pension system can contribute to the security of Canadian workers and retirees and support increases in living standards. The focus in 2006–07 has been on strengthening the framework for defined benefit pension plans and providing advice related to the Canada Pension Plan Investment Board (CPPIB).

The Department is responsible for issues related to AML and ATF. The Department's leading role in the global fight against money laundering and terrorist financing contributes to public safety in Canada and worldwide. In 2006–07, the focus has been on enhancing Canada's AML and ATF regime, undergoing a mutual evaluation, and presiding over the FATF.

Expected results

1. Stable, low-cost financing for the Government of Canada

See Program Activity 7, Public Debt.

2. A well-functioning market in Government of Canada securities

See Program Activity 7, Public Debt.

3. Management of Canada's official international reserves

In conjunction with the Bank of Canada, the Department manages Canada's official international reserves. This is a portfolio of diversified foreign currency assets that is maintained to provide general foreign currency liquidity and to promote orderly conditions in the foreign exchange market for the Canadian dollar, if required.

In 2006–07, the reserves portfolio strategic objectives were achieved and the portfolio was increased by some $5 billion over the year. Detailed information on the composition of the portfolio and performance is contained in the annual report on the management of Canada's official international reserves, which will be tabled in Parliament and posted on the Department's website shortly after the publication of the Public Accounts in the fall. See http://www.fin.gc.ca/purl/efa-e.html.

An external evaluation of the Exchange Fund Account completed in 2006 concluded that the government's policies and practices are sound and in keeping with those of other comparable countries. The evaluation report is available on the Department's website at http://www.fin.gc.ca/efa/EFA2006_e.html.

4. A sound borrowing framework for Crown entities

Under the *Financial Administration Act*, the Minister of Finance is responsible for approving the borrowing done by government entities and ensuring prudent treasury management policies.

A 2005 study of the current borrowing framework for major Crown borrowers by an outside consulting firm identified improvements to the existing framework and advised on the potential benefits and costs of a consolidated borrowing framework. The study is available at http://www.fin.gc.ca/toce/2005/MFGBE-e.html.

In response to the study, in Budget 2007, the government announced the decision to consolidate the borrowings of agent Crown corporations (Business Development Bank of Canada, Canada Mortgage and Housing Corporation, and Farm Credit Corporation) to reduce debt costs and enhance the liquidity of the Government of Canada securities market. The initiative, to be implemented in 2008, is expected to save up to $90 million over five years and to add up to $10 billion per annum to the Government of Canada borrowing program. For further details, see the Debt Strategy Report, published as Annex 3 of Budget 2007 and available at http://www.budget.gc.ca/2007/bp/bpa3e.html#debt.

5. A supply of coinage at a reasonable cost

See Program Activity 8, Domestic Coinage.

6. A regulatory framework that promotes the soundness, efficiency, and competitiveness of Canada's financial sector and serves the needs of individuals, businesses, and the economy

The Department advises on and develops policy, legislation, and regulations to support a leading-edge financial services sector and domestic capital market to achieve a more productive, competitive, and dynamic economy.

The four principal acts that govern financial-sector regulation (the *Bank Act*, the *Insurance Companies Act*, the *Trust and Loan Companies Act*, and the *Cooperative Credit Associations Act*) are subject to a five-year review cycle. The regular review of these statutes is a practice that sets Canada apart from virtually every other country in the world and gives Canadian financial institutions an important advantage relative to their foreign competitors. It provides the Government of Canada with a tool to ensure that the regulatory framework allows financial-sector participants to operate as efficiently and effectively as possible, while maintaining the safety and financial soundness of the sector, thereby serving and protecting the interests of consumers and businesses.

In Budget 2006, the government extended the legislated sunset date for the financial institutions statutes by six months, from October 24, 2006, to April 24, 2007, to provide Parliament with sufficient time to consider the legislation that would be tabled later in 2006.

Legislation was tabled on November 27, 2006. On March 30, 2007, *An Act to amend the law governing financial institutions and to provide for related and consequential matters* (Bill C-37) received Royal Assent. The legislation aims to:

(i) enhance the interests of consumers;
(ii) increase legislative and regulatory efficiency; and
(iii) adapt the financial institution statutes.

On April 20, 2007, most of the provisions of Bill C-37 came into force. To be fully implemented, the legislation will require regulations. The Department has started working on the development of those regulations.

During 2006–07, the Department of Finance Canada has also worked on the development of regulations associated with Bill C-57, *An Act to Amend Certain Acts in Relation to Financial Institutions*. On November 25, 2005, Bill C-57 received Royal Assent. The legislation modernized the governance framework for federal financial institutions and updated certain governance standards that are unique to financial institutions. A part of the legislation (and associated regulations) was brought into force on November 28, 2006, and dealt with provisions relating to civil remedies, distributing financial institutions, going-private transactions, insider reports, meetings and proposals, and prospectuses. Bringing into force the final part of the legislation will require regulations that will deal with provisions relating to electronic documents, exemption from public notices and other documents, annual statements, proxy and proxy solicitation, and participating policyholders. These regulations will be brought forward in 2007–08.

In addition, in 2006–07, the Department of Finance Canada worked jointly with Industry Canada on reviewing proposals from financial-sector stakeholders to modernize bankruptcy and insolvency rules with respect to eligible financial contracts and their supporting collateral. Following this review, the two departments introduced legislative amendments to the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act*, the *Winding-up and Restructuring Act*, the *Payment Clearing and Settlement Act*, and the *Canada Deposit Insurance Corporation Act* in the *Budget Implementation Act, 2007*, which received Royal Assent on June 22, 2007. Further, the two departments have been working on a revised definition of "eligible financial contract" which will be introduced in regulations in 2007–08.

In 2006–07, the Department of Finance Canada also coordinated preparatory work for Canada's Financial Sector Assessment Program (FSAP) Update by the IMF, which includes inputs from the Bank of Canada, the Office of the Superintendent of Financial Institutions, securities regulators, financial institutions, and other market participants. The FSAP Update has several components, including an analysis of the strengths and weaknesses of Canada's financial system; a discussion of policy issues relevant to financial stability; a stress-testing exercise that assesses the financial resilience of the largest banks to macroeconomic shocks; and an assessment of Canada's observation of certain internationally recognized regulatory standards and codes.

In the course of 2006–07, the government pursued discussions with provinces and territories, with a view to establishing a common securities regulator in Canada. Of particular note, a ministerial meeting was held at the end of June 2006 in Niagara-on-the-Lake with provincial and territorial finance ministers and ministers responsible for securities regulation.

The government remains committed to making tangible progress toward a common securities regulator for Canada. Budget 2007 included a companion document titled *Creating a Canadian Advantage in Global Capital Markets* (the Capital Markets Plan). In it, the government committed to working with provinces, territories, and other partners to create a Canadian advantage in global capital markets, including a new approach to securities regulation with proportionate, more principles-based regulation administered by a common securities regulator. In addition, the Plan includes measures to enhance market integrity through better resources to tackle cases of capital markets fraud and stronger collaboration with provincial authorities.

7. A sound legislative and regulatory framework for federally regulated defined benefit pensions

Following up on the public consultation process that commenced in 2005 and commitments in the 2006 budget, the Department has moved forward proposals to strengthen the legislative and regulatory framework for federally registered defined benefit pension plans in order to improve the security of pension benefits and ensure the viability of defined benefit pension plans.

In May 2005, the Department released a consultation paper, *Strengthening the Legislative and Regulatory Framework for Defined Benefit Pension Plans Registered under the* Pension Benefits Standards Act, 1985, to consult on means to enhance benefit security and the viability of defined benefit pension plans. The Department received a broad range of views from stakeholders, including plan sponsors, labour representatives, retirees, actuaries, and individual Canadians, with most submissions stressing that the funding status of private defined benefit pension plans was a key immediate issue affecting many workers, retirees, and pension plan sponsors. With the Office of the Superintendent of Financial Institutions, the Department analyzed the submissions and developed policy proposals for government consideration.

In Budget 2006, the Minister of Finance announced proposed funding relief for federally regulated defined benefit pension plans. The draft regulations setting out the detailed proposals were pre-published on June 2, 2006, for a 30-day public consultation period. In November 2006, the *Solvency Funding Relief Regulations* were adopted by the government with a view to helping re-establish the full funding of defined benefit pension plans in an orderly manner, while also protecting pension benefits.

8. Effective framework for investment of CPP funds

The CPPIB invests CPP funds on behalf of more than 16 million contributors and beneficiaries. The success of the CPPIB in achieving its investment objectives derives primarily from the soundness of its governance and the quality of its Board. The Minister of Finance is responsible for the CPPIB legislative framework and for coordinating, on behalf of federal and provincial governments, the appointment of individuals to the Board.

The CPP triennial review was completed in June 2006. Federal and provincial ministers of Finance reviewed the CPPIB's accountability and governance framework in the context of the government's proposals for the *Federal Accountability Act*. Ministers reviewed in particular the areas of codes of conduct, and conflict of interest and disclosure policies and practices, and concluded that they meet or exceed practices of public- and private-sector pension funds. Ministers also endorsed the CPPIB's fiduciary investment mandate and its *Policy on Responsible Investing* adopted in October 2005.

On an ongoing basis, the CPPIB is achieving strong results and improving the sustainability of the CPP. In its 2006–07 annual report, the CPPIB reported a gain of $13.1 billion, equivalent to a rate of return of 12.9 per cent, outperforming its benchmark portfolio by 245 basis points. Over the past five years, the CPP has earned an average annualized rate of return of 10.4 per cent, well above the 6.8 per cent required to ensure that the CPP is actuarially sound. For further details, see the CPPIB *Annual Report: 2006* at http://www.cppib.ca/info/annual/ar_2006/index.htm.

9. A world-class anti-money laundering (AML) and anti-terrorist financing (ATF) framework

The goal of Canada's AML and ATF regime is to combat money laundering and terrorist financing by conforming to international standards and providing appropriate tools to law enforcement while respecting the privacy of Canadians.

Canada is in the process of implementing the revised AML and ATF standards of the Financial Action Task Force on Money Laundering (FATF) and is undergoing a comprehensive, mutual evaluation of Canada's regime by the FATF in 2007. The evaluation of Canada's regime started with the submission of its evaluation questionnaire to the FATF in January 2007, followed by an on-site visit by a team of international financial, law enforcement, and legal assessors in March. The final report will be discussed at the FATF plenary meeting in February 2008.

In October 2006, the Senate Standing Committee on Banking, Trade and Commerce produced a report, *Stemming the Flow of Illicit Money: A Priority for Canada*, as part of its review of the administration and operation of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. This review is mandated by the Act to occur every five years.

Bill C-25, *an Act to Amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Income Tax Act and to make a consequential amendment to another Act*, responded to the parliamentary review and received Royal Assent on December 14, 2006. The amendments to the Act make Canada's AML and ATF regime consistent with international standards. The amendments also implement recommendations made in the Auditor General of Canada's 2004 report and in a 2004 Treasury Board-mandated evaluation of the regime.

The amendments include the following:

- enhancing information sharing between the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), law enforcement, and other domestic and international agencies;
- creating a registration regime for money service businesses;

- passing enabling legislation for enhanced client identification measures; and
- creating an administrative and monetary penalties regime to better enforce compliance with the Act and its regulations.

On March 10, 2007, the first phase of regulations implementing the amendments to the Act was pre-published in the *Canada Gazette* for comment. This set of regulations consisted of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Registration Regulations* and the *Regulations Amending Certain Regulations Made Under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Further phases of regulations will be introduced throughout 2007 and 2008 to fully implement the amendments to the Act.

10. Effective support for Canada's presidency of the Financial Action Task Force (FATF)

During 2006–07, Canada presided over the FATF. The Canadian president was successful at addressing issues identified in the work program, including welcoming China as a member, and India and South Korea as observers; strengthening the ongoing relationship with the private sector; advancing the analysis of terrorism and money laundering threats; and initiating a strategic review of the organization.

During the year, the Canadian president chaired three FATF plenary meetings, including one hosted by Canada in Vancouver. Approximately 400 delegates attended from FATF-member and observer countries.

Presiding over the FATF has demonstrated internationally Canada's commitment to remain at the forefront of the global fight against terrorist financing and money laundering.

Performance measurement

Expected Results / Performance Measurement	1. Stable, low-cost financing for the Government of Canada	2. A well-functioning market in Government of Canada securities	3. Management of Canada's official international reserves	4. A sound borrowing framework for Crown entities	5. A supply of coinage at a reasonable cost
Performance Indicators	Measures of operational performance (e.g. interest costs, fixed-floating shares of debt, average term to maturity)	Measures of market performance (e.g. turnover, trading spreads)	Measures of operational performance (e.g. investment returns, risk exposures)	Cost-effective borrowing activities and sound investment practices	Regular audit of payments to the Mint for domestic coinage supply and distribution
Data Sources	Fiscal Monitor; Debt Management Report	Debt Management Report	Annual Report on the Management of Canada's Official International Reserves	Annual reports, corporate plans, quarterly reporting	Public Accounts
Frequency	Monthly and Annual	Annual	Annual	Quarterly and annual	As required
Target	Stable, low-cost financing	Liquid markets for Government of Canada securities	Portfolio objectives attained	Minimize risk-adjusted borrowing costs and ensure prudent and effective treasury management	Efficient coinage system
Target Date	Ongoing	Ongoing	Ongoing	Ongoing	Annual
Actual	Stable, low-cost financing	Liquid markets for Government of Canada securities	Portfolio objectives attained	Risk-adjusted borrowing costs are low	Efficient coinage system
Performance Status	Successfully met expectations	Successfully met expectations	Successfully met expectations	Successfully met expectations	Successfully met expectations

Expected Results / Performance Measurement	**6. A regulatory framework that promotes the soundness, efficiency, and competitiveness of Canada's financial sector**	**7. A sound legislative and regulatory framework for federally regulated defined benefit pension plans**	**8. Effective framework for investment of CPP funds**	**9. A world-class AML and ATF framework**	**10. Effective support for Canada's presidency of the FATF**
Performance Indicators	Policy, legislative, or regulatory initiatives	Policy, legislative, or regulatory initiatives	CPPIB investment performance	Policy, legislative, or regulatory initiatives	Support for Canada's FATF presidency
Data Sources	Legislation, regulations, and publications	Legislation or regulations	CPPIB reports	Legislation, regulations, FATF mutual evaluation report	Press releases or other communications for the year of Canada's presidency
Frequency	Legislative and regulatory amendments, as needed	Legislative and regulatory amendments, as needed	Quarterly	Amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and regulations, as needed Mutual evaluation roughly every five years	As required
Target	Tabling of the 2006 financial institutions legislation Completion of Bill C-57 regulations Preparations for IMF FSAP update completed Progress toward a common securities regulator for Canada	Improved security of pension benefits and viability of defined benefit pension plans	Well-governed CPPIB, investment returns at or above long-term target required to achieve sustainability	A world-class AML/ATF framework	An effective presidency

Expected Results / Performance Measurement	6. A regulatory framework that promotes the soundness, efficiency, and competitiveness of Canada's financial sector	7. A sound legislative and regulatory framework for federally regulated defined benefit pension plans	8. Effective framework for investment of CPP funds	9. A world-class AML and ATF framework	10. Effective support for Canada's presidency of the FATF
Target Date	To be completed by April 24, 2007: financial-sector legislative review 2006: most of Bill C-57 regulations 2007: IMF FSAP review Ongoing: progress toward a common securities regulator for Canada	2006: release of proposed amendments to the Pension Benefits Standards Act or regulations	Ongoing	Ongoing: issuing of amendments to PCMLTFA and regulations	July 1, 2006, to June 30, 2007
Actual	Bill C-37 received Royal Assent on March 30, 2007, and most of the provisions came into force on April 20, 2007. Most of Bill C-57 regulations completed The Department coordinated preparatory work for Canada's Financial Sector Assessment Program Update by the IMF. The Department pursued discussions with provinces and territories on the establishment of a common securities regulator.	Solvency Funding Relief Regulations implemented in November 2006	Sustainability of the CPP achieved	The parliamentary review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* concluded with a report in October 2006; Bill C-25 received Royal Assent on December 14, 2006; the *Proceeds of Crime (Money Laundering) and Terrorist Financing Registration Regulations* and *Regulations Amending Certain Regulations Made Under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act*	The period of Canadian presidency, which will end in June 2007, has proven to be very effective

Expected Results / Performance Measurement	**6. A regulatory framework that promotes the soundness, efficiency, and competitiveness of Canada's financial sector**	**7. A sound legislative and regulatory framework for federally regulated defined benefit pension plans**	**8. Effective framework for investment of CPP funds**	**9. A world-class AML and ATF framework**	**10. Effective support for Canada's presidency of the FATF**
				were pre-published in the *Canada Gazette*, Part I, for a 30-day comment period on March 10, 2007. The mutual evaluation process is expected to be completed by February 2008.	
Performance Status	Successfully met expectations	Successfully met expectations	Successfully met expectations	Parliamentary review: successfully met expectations Legislative amendments: successfully met expectations Regulatory amendments: on track to meet expectations FATF mutual evaluation: on track to meet expectations	Successfully met expectations

Program Activity 4: Economic Development and Corporate Finance

This program activity is responsible for providing policy analysis and advice to the Minister of Finance regarding the financial implications of the government's microeconomic policies and programs and proposals for funding of programs. The program focusses on monitoring world-class research and development; on developing regional and sectoral policy analysis in the areas of the knowledge-based economy, defence, transportation, public infrastructure, environment, energy and resources, agriculture, fisheries, and privatization; and on advising on corporate restructuring regarding Crown corporations and other corporate holdings.

Financial resources ($ thousands)

Planned Spending	Authorities	Actual Spending
8,006	8,402	7,799

Human resources (FTEs)

Planned	Actual	Difference
70	61	9

Economic Development and Corporate Finance Expected Results	Priority Supported
A thorough assessment of operating and capital funding related to economic development and policy proposals	Sound Fiscal Management
Sound advice to the Minister on economic proposals	Sustainable Economic Growth
Enhanced productivity and economic growth through other governmental initiatives	Sustainable Economic Growth
Improved awareness of the requirements and departmental process for conducting strategic environmental assessments	Sustainable Economic Growth

The program activity supports the Department's strategic outcome by pursuing policies to encourage greater productivity and to create a more competitive and dynamic Canada.

Expected results

1. A thorough assessment of operating and capital funding related to economic development and policy proposals

Operating and capital budgets of economic development proposals were successfully assessed in the context of economic and financial advice, and policy analysis was provided to the Minister on proposals prepared for Cabinet consideration, on Budget 2006, on the fall 2006 *Economic and Fiscal Update*. The Department was also involved in the development of the government's economic priorities as set out in *Advantage Canada: Building a Strong Economy for Canadians*. The Department fulfilled a necessary "challenge" function in helping manage the funding demands of other government departments and agencies, contributing to sound decisions that reflected public policy and a responsible use of taxpayers' money.

The program activity contributed to the Department's central agency role through its work with other departments and agencies. For example, the Department worked with the Canadian Coast Guard in the development of Phase II of its fleet renewal strategy, which led to the provision of $324 million to the Canadian Coast Guard to purchase six large vessels to avoid further deterioration of these assets. Funding for the Small Craft Harbours Program was also stabilized through the December 2006 renewal funding of $20 million annually, allowing Fisheries and Oceans Canada to maintain its core fishing harbours in good working condition.

2. Sound advice to the Minister on economic proposals

The program activity fulfils the challenge function of the Department by assessing and providing sound policy advice to the Minister of Finance on the financial implications of the government's microeconomic policies and programs and proposals for program funding.

The Department worked with other departments to implement the commitments made in *Advantage Canada* to advance the Knowledge Advantage and the Entrepreneurial Advantage. The Department made important contributions to the development of a new comprehensive science and technology strategy, Mobilizing Science and Technology to Canada's Advantage, that aims to generate science and technology leadership for Canada, based on strong public- and private-sector commitments to research excellence. The Department's work led to the inclusion in Budget 2007 of significant new resources for science and technology, for example:

- new funding for research at universities, colleges, and research hospitals;
- new investments in leading-edge research infrastructure through the Canada Foundation for Innovation and CANARIE (Canada's advanced networking organization); and
- training of highly qualified personnel through new scholarships and internships.

The Department also worked to advance a number of initiatives set out in *Advantage Canada* that are aimed at improving the business environment and stimulating private-sector investment and innovation. The Department worked with other departments and agencies to advance regulatory reform by making government regulations more efficient, timely, and cost-effective, while continuing to protect the health and safety of Canadians. This included contributing to the introduction of a performance-based regulatory system through the *Cabinet Directive on Streamlining Regulation*, and the government's initiative to reduce the paper burden by 20 per cent, both of which were highlighted in Budget 2007.

The Department also contributed to the implementation of the government's ecoAction plan, providing policy and economic analysis in support of the Regulatory Framework for Air Emissions, as well as Budget 2007 initiatives, such as:

- a provincial trust to support measures to reduce air pollution and mitigate climate change;
- a production incentive for renewable fuels and support for the development of next-generation technology; and
- the National Water Strategy.

In *Advantage Canada*, the Department identified the important role of trade corridors and transportation gateways in facilitating efficient trade and outlined planned efforts to develop a comprehensive infrastructure plan that includes funds for national highways, gateways, and the construction of a new border crossing at Windsor–Detroit.

The Department also worked with other departments and agencies to implement a number of key measures introduced in Budget 2007 as part of a new $33 billon long-term infrastructure plan. This new plan includes the enriched Asia–Pacific and Corridor Initiative, a dedicated fund for gateways and border crossings, and the new Building Canada Fund to support investments in the core national highway system and other projects.

3. Enhanced productivity and economic growth through other governmental initiatives

In line with other 2006–07 RPP commitments, the Department has contributed to the development of the government's new Regulatory Framework for Air Emissions, a made-in-Canada plan that includes mandatory industrial greenhouse gas reduction targets and that will help create a cleaner, healthier environment.

The Department continues to explore ways to promote economic growth and productivity, including through additional investments in modern and efficient infrastructure. Reflecting consultations with provinces, territories, and other stakeholders, Budget 2007 introduced a new set of infrastructure programs centred on a $33 billon long-term infrastructure plan. This plan includes funds for large-scale projects such as public transit and segments of the national highway system. Additionally, funds have been provided to support new investments in gateways and border crossings, including at Windsor–Detroit and the Asia–Pacific Gateway and Corridor Initiative, to help reduce travel costs and promote efficient commerce. The plan also provides additional support for large cities and smaller municipalities through extended gas tax funding.

With regards to sectoral policies, the Department of Finance Canada worked in collaboration with Agriculture and Agri-Food Canada in the development of the next generation of agricultural policy that is simpler, more predictable, and more responsive to farmers' needs (*Growing Forward*). Additional funding of $4.5 billion was provided through Budget 2006 and Budget 2007 to help reform agricultural programs and introduce new ones, such as the disaster assistance framework (Agri-Recovery) and a new farm savings account (Agri-Invest) to be cost-shared with provinces and territories.

The Department of Finance Canada also worked closely with Fisheries and Oceans Canada toward improving the sustainability of Canada's fisheries and oceans. To that end, Budget 2007 re-invested over two years the following sums: $39 million to support fisheries science research; $19 million to contribute to keeping Canada's coastal waters clean as part of the National Water

Strategy; and $20 million to ensure that First Nations in the Maritimes and in the Gaspé region of Quebec have the capability to more efficiently manage their access to the commercial fishery.

4. Improved awareness of the requirements and departmental process for conducting strategic environmental assessments

The Department's 2006–07 RPP committed it to developing a new departmental sustainable development strategy (SDS) for 2007–09. The Department of Finance Canada 2007–10 SDS was tabled in Parliament in December 2006 and is the third update of the original SDS tabled in December 1997. It builds upon the foundation of previous strategies, including key achievements in debt reduction, evaluation of environmental tax proposals, strategic environmental assessment, and green stewardship. The SDS was shaped by government-wide guidance on federal sustainable development goals and greening government operations, and benefitted from consultations undertaken by the Department to get a better understanding of how the Department's actions and proposals are seen by stakeholders and those involved in sustainable development.

The program activity continued to promote awareness throughout the Department of the need to undertake strategic environmental assessments in accordance with the *Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals*. Specifically, in the fall of 2006, the Department hosted a representative from the Canadian Environmental Assessment Agency to provide a briefing to all interested departmental staff on strategic environmental assessment (SEA). A representative subsequently made a presentation to officials on the SEA process tailored to the specific role and activities of the Department.

Performance measurement

Expected Results / Performance Measurement	1. Thorough assessment of operating and capital funding related to economic development and policy proposals	2. Sound advice to the Minister on economic proposals	3. Enhanced productivity and economic growth through other governmental initiatives	4. Improved awareness of the requirements and departmental process for conducting strategic environmental assessments
Performance Indicators	Measures of sector-specific cost-effectiveness	Implementation of micro-economic policy directions in the government's economic agenda	Fiscally responsible plans to implement the initiatives listed above	The number of strategic environmental assessments conducted by the Department will be tracked and monitored
Data Sources	Statistics Canada OECD	Budget and economic update	Budget and economic update	Departmental inventory
Frequency	Annual	Annual	Annual	Annual
Target	Related to each sector	Announcement of measures that advance productivity and economic growth	Announcement of measures that advance productivity and economic growth	Maintain awareness of the departmental strategic environmental assessment process
Target Date	Budgets and economic updates in 2006–07	Budgets and economic updates in 2006–07	Ongoing, annual activities	Ongoing, annual activities
Actual	R&D expenditures in targeted sectors, e.g. R&D expenditures for health sector in universities increased by 10% in 2006 over the previous year Private-sector funding of university research (not available by sector) increased by 10% in 2006 over the previous year	Development of long-term economic plan, *Advantage Canada* Budget 2007 included new resources for science and technology, training and education, and commitments to reduce the regulatory burden on businesses	Development of long-term economic plan, *Advantage Canada* Budget 2007 included new resources for science and technology, training and education, and commitments to reduce the regulatory burden on businesses	The Department has developed an SEA registry to track and monitor SEAs Since 2003–04, the Department has completed 258 SEAs, including 93 in 2006–07
Performance Status	Successfully met expectations	Successfully met expectations	Successfully met expectations	Successfully met expectations

Program Activity 5: Federal-Provincial Relations and Social Policy

This program aims to create and maintain a system of federal-provincial-territorial fiscal arrangements that will facilitate the funding of national priorities and the provision of reasonably comparable public services at reasonably comparable levels of taxation throughout Canada. The program focus is on the fiscal and economic implications of federal-provincial-territorial fiscal arrangements as well as the provision of advice on social policies and programs, including health care, employment insurance, post-secondary education, immigration, housing, Aboriginal and cultural programs and benefits, justice, and programs for seniors, persons with disabilities, and children. Program activity includes ongoing communication and consultations within the Department, with central agencies and other federal government departments, as well as with provincial and territorial governments, stakeholders, academics, experts, and individual Canadians. It also includes the provision of analysis and advice to the Minister of Finance and senior government officials to assist in the preparation for meetings of Cabinet and its committees, as well as federal-provincial-territorial meetings, and in preparation of policies and proposals for the annual budget and fiscal updates. The program is also responsible for preparing legislation and regulatory changes related to the federal-provincial-territorial fiscal arrangements, as required.

Financial resources ($ thousands)

Planned Spending	Authorities	Actual Spending
17,229	18,083	14,497

Human resources (FTEs)

Planned	Actual	Difference
115	102	13

Federal-Provincial Relations and Social Policy Expected Results	Priority Supported
Implementation of a new formula for Equalization and TFF	Sound Social Policy Framework
Determine the most appropriate arrangements for post-secondary education and training	
Effective implementation of government social policy priorities	

The work under this program activity supports the Department's commitment to creating a sound social policy framework by contributing to the government's efforts to meet its objectives regarding the quality of Canada's communities, health care, education, and social safety net programs and the commitment to equality of opportunity for all citizens. The program activity also ensures that federal-provincial-territorial fiscal arrangements are consistent with these priorities and allow for the redistribution of wealth across regions of the country through the provision of transfer payments consistent with the government's commitments. This helps ensure that provincial and territorial governments are able to provide services to their residents.

Whenever possible, the program activity consulted stakeholders (including other government departments) in the early stages of the policy development process, as was the case, for example, in the process that led to the changes to the CPP announced by federal, provincial, and territorial ministers of Finance in June 2006 and legislated as part of Bill C-36, which received Royal Assent on May 3, 2007.

1. Implementation of a new formula for Equalization and Territorial Formula Financing (TFF)

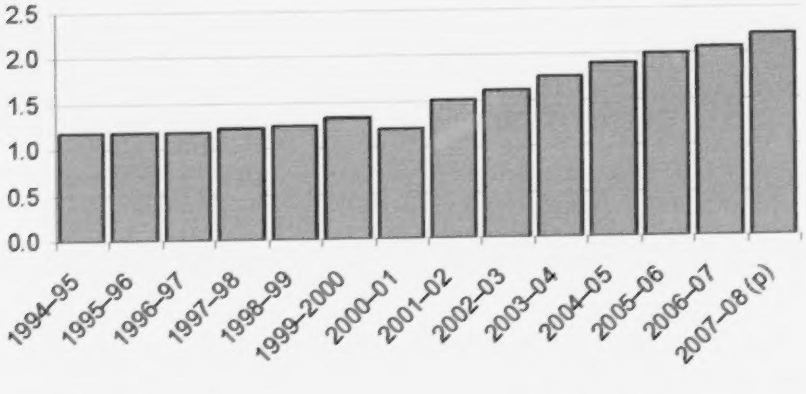
Since 1957–58, Equalization has been Canada's most important program for reducing fiscal disparities among provincial governments. Equalization payments enable eligible provincial governments to provide their residents with public services that are reasonably comparable to those in other provinces at reasonably comparable levels of taxation.

TFF is the main transfer program from the Government of Canada to the three territorial governments. Although territorial governments have the authority to raise revenues by taxation, rentals, and the sale of goods and services, a significant portion of their financial resources comes from the federal government through TFF.

The 2006–07 RPP set out a number of ongoing activities and key commitments for the Department to meet in 2006–07. The ongoing activities were to continue to update Equalization and TFF information and determine payment levels based on legislation. The key commitments for the 2006–07 year were to review the recommendations of the Expert Panel on Equalization and TFF; develop advice on a renewed, principles-based Equalization and TFF program; undertake consultations with provinces and territories; and prepare legislation and regulatory changes and coordinate them with provinces and territories.

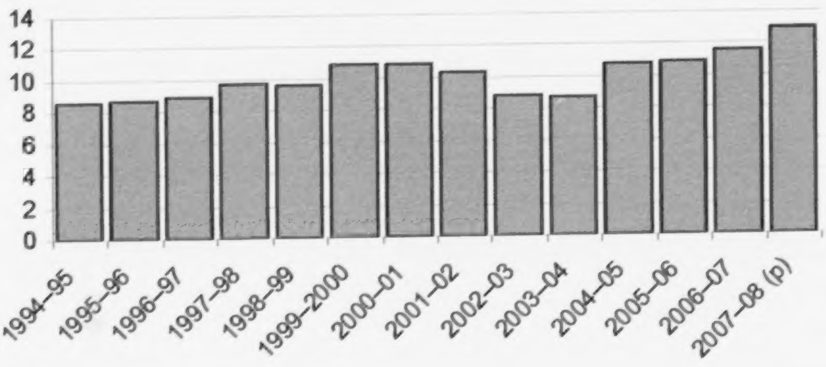
In 2006–07, $11.5 billion was provided to recipient provinces through the Equalization program (as planned) and $2.1 billion was provided to territories through TFF (as planned). In 2007–08, more than $12.9 billion is to be provided to provinces through Equalization and $2.2 billion is to be provided through TFF.

TFF Transfers, 1994–95 to 2007–08 ($ billion)



Source: Department of Finance Canada

Equalization Transfers, 1994–95 to 2007–08 ($ billion)



Source: Department of Finance Canada

With respect to ongoing activities, in 2006–07, interim payments under the Equalization and TFF programs were made based on legislation. “Open years” continued to be adjusted by incorporating more up-to-date data as they became available.

The key commitments have, in large part, been achieved, with the introduction in Budget 2007 (tabled in Parliament on March 19, 2007) of new, principles-based transfer programs. Budget 2007 proposals reflect the recommendations of the Expert Panel on Equalization and TFF (the O’Brien report, released in June 2006 and available at http://www.eqtff-pfft.ca/english/epreports.asp) and the advice received through consultations with provinces and territories, academics, stakeholders, and Canadians. Budget 2007 also builds on the important principles established in Budget 2006 (tabled May 2, 2006), namely accountability through clarity of roles and responsibilities, fiscal responsibility and budget transparency, predictable long-term fiscal arrangements, a competitive and efficient economic union, and effective collaborative management of the federation.

Budget 2007, based on these consultations, along with the O'Brien report and Budget 2006, provides for a strengthened and renewed Equalization program. The main elements of the renewed Equalization program include a higher Equalization standard, a new approach to the treatment of natural resource revenues, a fiscal capacity cap, a simplified measurement of fiscal capacity, stable and predictable payments, and fulfillment of the commitments to exclude non-renewable resource revenues and respect the offshore accords.

Budget 2007 will also put in place a long-term legislated TFF arrangement that follows the recommendations in the O'Brien report and that was supported by all three territories. The main elements of the proposed TFF program include a separate gap-filling formula for each territory, a simplified measurement of territorial revenues, improved incentives for territories to develop their economies and increase their own-source revenues, and a simplified estimate and payment system to increase predictability.

The final steps in the changes to these programs will be completed in 2007–08. As at March 31, 2007, Budget 2007 had been tabled in Parliament but had yet to receive Royal Assent. Both the Equalization program and TFF have payment amounts set in legislation for 2007–08 and will use the new formulas for payment allocation starting in 2008–09.

Extensive consultations and independent advice from an expert panel proved invaluable to fostering a more informed national debate and ensuring the government received comprehensive and independent advice regarding important transfer programs. Given the competing pressures and different priorities faced by provinces and territories, it was apparent that the goal was not complete consensus on new fiscal arrangements, but rather full and transparent exchanges of information and advice leading to balanced final proposals.

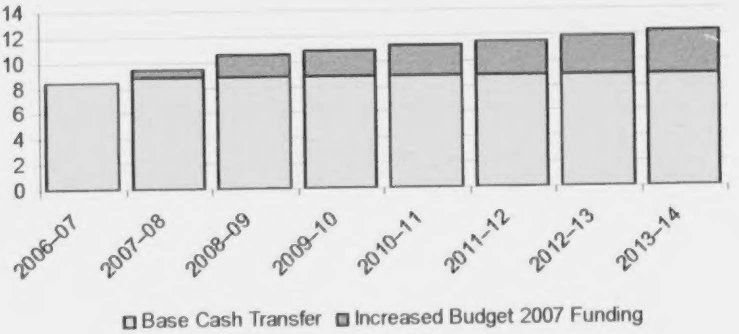
2. Determine the most appropriate arrangements for post-secondary education and training

The government made a commitment in the 2006 budget to determine the most appropriate arrangements for its long-term funding commitments for post-secondary education and training. More specifically, it committed to working with provincial and territorial governments, central agencies, other government departments, and external stakeholders to ensure both timely decisions with respect to, and implementation of, the commitment to determine funding in the areas of post-secondary education and training.

As a result of the activity, which included consultations with provincial and territorial governments, stakeholders, academics, and Canadians, Budget 2007 proposes to strengthen transfers to provinces and territories by:

- providing new investments of $800 million per year for post-secondary education through the Canada Social Transfer (CST) and $500 million per year directly to provinces and territories for labour market training (starting in 2008–09);
- including an automatic 3 per cent escalator, effective in 2009–10, to guarantee that the CST will grow in line with inflation and population;
- extending the funding framework for the CST legislation to 2013–14 to provide the provinces and territories with stable and predictable support;
- publicly earmarking federal support for post-secondary education and social programs (based on provincial and territorial spending patterns, approximately 25 per cent of the CST has been identified as federal support for post-secondary education, while the remaining 75 per cent will be distributed among other social programs, including support for children);
- moving to equal per capita cash transfers in order to provide comparable treatment for all Canadians and eliminate what the O'Brien report referred to as "back door" Equalization; and
- finally, ensuring that no province or territory experiences a decline in Canada Health Transfer (CHT) or CST cash relative to what that jurisdiction would have received in 2007–08, before the implementation of the proposed changes.

Budget 2007 Investments in the CST ($ billion)



Source: Department of Finance Canada

3. Effective implementation of government social policy priorities

This program activity fulfills the challenge function of the Department by assessing and providing sound policy analysis and advice to the Minister of Finance on social policy issues, including advice on early learning and childcare, post-secondary education, immigration, income security, justice and security, health, culture, and Aboriginal people in Canada.

The Department worked extensively with other departments to implement the commitments made in *Advantage Canada* to create a Knowledge Advantage. The Department made important contributions to the development of measures to strengthen the quality and competitiveness of Canada's post-secondary education system, help Canadians get the skills they need and employers want, and ensure that Canada attracts and retains the best and brightest immigrants with the skills and knowledge in demand in the labour market. The work of the Department led to the inclusion in Budget 2007 of a series of significant new initiatives. Below is a list of examples of such initiatives:

- an annual investment of $500 million, starting in 2008–09, to provinces and territories to provide labour market training to help people not eligible for training under employment insurance get the skills they need;
- an expansion of the Aboriginal Skills and Employment Partnership Program to help Aboriginal people in Canada receive the skills and employment training that will increase their participation in economic development projects across Canada; and
- helping Canadian-educated foreign students and skilled foreign workers stay in Canada as permanent residents, under certain conditions.

The Department also worked with other government departments to deliver on measures aimed at helping people with disabilities, Aboriginal people in Canada, and seniors as well as modernizing Canada's health care system. This work resulted in measures announced in Budget 2007, such as the following:

- the creation of an Enabling Accessibility Fund to help persons with disabilities participate fully in their communities;
- an expansion of the Aboriginal Justice Strategy and increased funding for housing in First Nations communities;
- an additional investment of $10 million per year in the New Horizons for Seniors program; and
- significant funding to support patient wait times guarantees and to protect women from HPV/cancer of the cervix.

The Department contributed to the development of several measures aimed at enhancing the security of Canadians, such as increased funding to enhance the effectiveness of the operations of the Canadian Security Intelligence Service, additional funding to update the infrastructure of Correctional Service Canada, and the implementation of a new National Anti-Drug Strategy.

Performance measurement

Expected Results / Performance Measurement	**1. Implementation of a new formula for Equalization and TFF**	**2. Determination of the most appropriate arrangements for post-secondary education and training**	**3. Effective implementation of government social policy priorities**
Performance Indicators	Research, analysis, and advice with respect to Equalization and TFF Bring forward proposals on renewed programs	Bring forward proposals on renewed arrangements	Timely implementation of programs related to the government's social policy priorities
Data Sources	Various (budgets, Economic and Fiscal Updates, consultation reports, etc.)	Various (budgets, Economic and Fiscal Updates, bilateral and multilateral agreements, consultation reports, etc.)	Main and Supplementary Estimates for other departments
Frequency	Ongoing	Ongoing	Annual/ongoing
Target	Timely and accurate research, analysis, and advice	Timely and accurate research, analysis, and advice to determine appropriate funding in the areas of post-secondary education and training	Policy development and timely rollout of initiatives and related funding of government social and economic policy priorities
Target Date	Ongoing Proposals for renewal intended to be brought forward for inclusion in Budget 2007	Proposals for renewal intended to be brought forward for inclusion in Budget 2007	Ongoing
Actual	Developed and analyzed policy for Budget 2006 and provided policy advice based on analysis of the Expert Panel's report; proposals tabled as part of Budget 2007	Increased and earmarked funding for post-secondary education announced in Budget 2007; New Labour Market Architecture, including transfer of Employment Insurance Part II programming and new labour market program, announced in the 2007 budget	Measures were announced in the 2007 budget to support progress on *Advantage Canada* Departments are at various stages of implementation

Expected Results / Performance Measurement	1. Implementation of a new formula for Equalization and TFF	2. Determination of the most appropriate arrangements for post-secondary education and training	3. Effective implementation of government social policy priorities
Date of Actual	Budget 2006 (May 2, 2006) Budget 2007 (March 19, 2007) Funding under the proposed renewed programs would start in 2007–08	The 2007 budget proposed new post-secondary education funding and funding for the proposed new labour market program to start in 2008–09. Discussions with the remaining five provinces and territories are underway to complete transfer of EI Part II programming	2007 budget for most measures (such as the new avenue to immigration to Canada, temporary foreign workers program, labour market and training, post-secondary education, Aboriginal programs, National Anti-drug Strategy)
Performance Status	Successfully met expectations	Successfully met expectations	Successfully met expectations

Program Activity 6: International Trade and Finance

Canada's economic performance and future prosperity depend on trade and investment flows supported by high-standard multilateral, regional, and bilateral trade and investment rules and agreements. The aim of this program activity is to secure access to key markets for Canadian exporters and investors, and to reduce tariffs where possible in order to enhance the competitiveness of domestic industries and expand commercial opportunities for them.

The program manages the Department's participation in international economic, trade, and financial institutions, including the Organisation for Economic Co-operation and Development, the World Trade Organization (WTO), the IMF, the World Bank Group, and the European Bank for Reconstruction and Development, as well as international groups such as the G7, G20, and the Asia–Pacific Economic Cooperation forum (APEC).

Financial resources ($ thousands)

Planned Spending	Authorities	Actual Spending
15,997	16,790	14,903

Human resources (FTEs)

Planned	Actual	Difference
123	109	14

International Trade and Finance Expected Results	Priority Supported
Stronger international trading system and more open markets	Sustainable Economic Growth
Policy positions and proposals that improve prospects for global economic and financial stability and better financial governance	Effective International Presence
Effective international initiatives to strengthen developing economies	Effective International Presence

The work under this program activity contributes to the departmental priorities of sustainable economic growth and effective international presence by working to improve Canada's overall economic performance through a stronger international trade and investment system that opens markets, enhances competitiveness of domestic industries, and expands access for Canadian exports to and investment in major foreign markets. The program activity also enhances Canada's international presence by advancing Canadian leadership in international forums such as the G7 and G20, and by providing policy direction to international financial institutions such as the IMF and World Bank. In addition, the Department contributes to international initiatives to improve outcomes in the developing economies through effective use of international assistance, debt relief, and other means and the provision of payments consistent with the Department's commitments.

Expected results

1. Stronger international trading system and more open markets

The Minister received advice on proposals to enhance Canadian competitiveness through a range of trade policy instruments and budgetary efforts. In particular, departmental officials worked with other government departments to develop a new approach to international trade policy to enhance Canadian business participation in global market opportunities. Budget 2007 announced the Global Commerce Strategy to support an expansion of our bilateral trade network, strengthen our competitive position in the U.S. market, and extend Canada's reach to new markets.

The Department also plays a key role in the SPP initiative in terms of policy perspectives and overall budgetary considerations. The Department leads or co-leads Canadian delegations in SPP working groups such as the North American Steel Trade Committee and the working group on the North American Free Trade Agreement (NAFTA) rules of origin. Based on the output of the rules of origin working group, the Department has implemented more liberal rules of origin covering more than U.S.$35 billion in total trilateral trade, which will improve the competitiveness of Canadian industries by reducing transaction costs and facilitating cross-border movement. (See http://www.international.gc.ca/nafta-alena/amendment-401-06-en.asp.) Officials of the three NAFTA partners are currently finalizing plans to further liberalize NAFTA rules of origin.

The Department remained actively engaged in the WTO negotiations and dispute resolution during 2006–07, particularly in areas of Department of Finance Canada responsibility (trade remedies and non-agricultural market access negotiations). The Department leads on behalf of Canada in the WTO Negotiating Group on Rules (trade remedy issues) and has focussed its work on strengthening international subsidy disciplines. Information on Canada's role in the WTO negotiations can be found at http://www.international.gc.ca/tna-nac/current-en.asp#neg. Departmental officials also participated in ongoing trade negotiations with the Republic of Korea, Singapore, and four Central American countries (El Salvador, Guatemala, Honduras, and Nicaragua).

Given the Department's responsibility for the Customs Tariff and other import legislation, officials continued to play a key role in bilateral and regional free trade agreements. In particular, officials participated in the free trade agreement negotiations with European Free Trade Association countries (Norway, Iceland, Switzerland, and Liechtenstein), which led to the announcement of an agreement in June 2007.
(See http://www.international.gc.ca/tna-nac/efta-en.asp.)

The Department also works to enhance the competitiveness of Canadian industry through tariff relief measures and the assessment of the impact of trade remedy measures on the Canadian economy. In 2006–07, the Department approved 15 requests for tariff elimination on specific products and completed its work to eliminate duties on a very large number of textile products, which resulted in a total amount of ongoing duty relief of about $18 million, in addition to the $39 million of duty relief provided in 2005–06. Three remission orders were also approved, providing duty relief on a temporary basis of approximately $53 million.

Officials also participated in the negotiation of foreign investment protection and promotion agreements (FIPAs) with India, Peru, China, and six newly acceded European Union member states. The FIPAs with India and Peru were subsequently successfully concluded in June 2007. (See http://w01.international.gc.ca/MinPub/Publication.aspx?isRedirect=True&Language=E&publication_id=385226&docnumber=82.) FIPAs encourage investment by providing a legal framework for investment that ensures market access in some sectors and provides access to international dispute settlement procedures when needed.

In 2006–07, the Department negotiated the revised Aircraft Sector Understanding of the Arrangement on Officially Supported Export Credits (ASU). The main parties to this agreement are the U.S., European Community, Canada, Brazil, and Japan. The Agreement levels the playing field in aircraft sales financing support and will facilitate access to predictable and competitive sales financing terms for Canadian manufacturers. As part of this process, the Department worked closely with Foreign Affairs and International Trade Canada, Export Development Canada, the Government of Quebec, and industry representatives.

2. Policy positions and proposals that improve prospects for global economic and financial stability and better financial governance

Support was provided for the Minister's participation in and contribution to international initiatives aimed at improving global economic and financial stability, and better financial governance.

International organizations in which the Minister and the Department participate include the G7, G10, and G20 finance ministers' forums, the IMF, the World Bank, the EBRD, the OECD, APEC, the Western Hemisphere Finance Ministers' meetings, the Commonwealth finance ministers' meetings, and numerous bilateral partnerships with other countries and regional groups.

In addition, through its ongoing activities, the Department participates in discussions at the executive boards of the IMF and the World Bank on country issues, thematic issues, and the global economic outlook.

In 2006–07, the Department:

- provided leadership on the IMF's reform agenda, including the IMF quota reform, which will help ensure that the IMF remains a relevant, effective, and representative institution (see the Department's report on IMF operations at http://www.fin.gc.ca/toce/2007/bretwd06_e.html);
- organized and hosted an important G20 seminar to develop key policy options on issues such as the impact of high resource prices on the macroeconomic outlook, the importance of well-functioning energy and resource markets, and the need for effective management of resource endowments;
- promoted an initiative to achieve mutual recognition of securities market regulatory frameworks throughout the G7 to provide greater choice to investors and allow stock exchanges to broaden their customer base;

- provided support to the Extractive Industries Transparency Initiative that, by making oil, gas, and mining activities more transparent by publicizing payments and revenues, will encourage improved government accountability and long-term economic sustainability (see http://www.fin.gc.ca/news07/07-012e.html); and
- maintained the network of finance counsellor positions abroad and expanded it with a new finance counsellor position in Beijing.

The Department provided policy advice on the operations and policies of other government departments with a primarily international mandate, including the announcement in Budget 2007 of funding for Foreign Affairs and International Trade Canada to enhance the critical infrastructure of foreign missions and help ensure the safety and security of Canada's diplomats. The Department also provided analysis and advice on the allocation of new international aid money provided in Budget 2006 and Budget 2007. The additional funding will be used to support a new global health initiative called the Advance Market Commitment, as well as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the Global Polio Eradication Initiative; to finance crises through the Exogenous Shocks Facility; and to provide development assistance in Afghanistan.

The Department also laid out a strong agenda in Budget 2007 to make existing aid resources go further by enhancing their focus, improving their efficiency, and increasing accountability. The Department continues to work interdepartmentally to develop a comprehensive aid reform strategy, benchmarked against other G7 countries, as well as to allocate new aid money within the International Assistance Envelope for 2007–08.

3. Effective international initiatives to strengthen developing economies

The Department participated in all Paris Club meetings with a view to implementing debt relief initiatives consistent with Canadian international policies and supporting debtor countries' active debt management activities.

In the 2006–07 fiscal year, the government agreed to provide debt relief to Haiti after it made progress toward political and macroeconomic stability. In addition, the government cancelled all debt owed to Canada by Cameroon after it graduated from the Heavily Indebted Poor Countries Initiative.

The government also agreed to a proposal from Russia to prepay its Paris Club–rescheduled debt. Given Canada's strong active support for the rebuilding of Afghanistan, the Department participated at the debt relief negotiation between the country and its Paris Club creditors.

The Department plays a leading role in Canada's delivery of debt relief and began coordinating with other international creditors in 2005 to cancel a significant amount of debt owed by the world's poorest and most heavily indebted countries. In fiscal year 2006–07, Canada and the rest of the G8 endorsed and implemented a multilateral debt relief agreement, known as the Multilateral Debt Relief Initiative (MDRI), that will cancel U.S.$60 billion in debts owed by poor countries. The government committed C$51.2 million annually to the Department of Finance Canada's share of MDRI-related costs.

Through the development and implementation of this initiative, Canada, together with the international community, will continue to significantly reduce the debt burdens of poor countries to sustainable levels. Freed-up resources from debt relief can then be used to finance the countries' social-sector spending and poverty reduction priorities to help them reach their long-term development goals.

In Budget 2006, the government allocated new funding to the Exogenous Shocks Facility to support low-income countries facing balance of payments crises due, for example, to a natural disaster or sharp commodity price rises.

In the 2006–07 fiscal year, the Department played a key role in the development of a whole-of-government response to the crises in Lebanon and Sudan, for which Crisis Pool funding was provided. Although the Crisis Pool has allowed Canada to quickly respond to major unforeseen crises, while insulating the fiscal framework from unpredictable demands, there are still areas where improvements can be made. These are often a result of the complex nature of Canadian involvement in emergency situations, such as in Sudan. The Department will seek ways to further improve its flexibility.

Performance measurement

Expected Results / Performance Measurement	1. Stronger international trading system and more open markets	2. Policy positions and proposals that improve prospects for global economic and financial stability and better financial governance	3. Effective international initiatives to strengthen developing economies
Performance Indicators	Progress will be measured through the results of various regional, multilateral, and bilateral trade and investment negotiations and initiatives	Policies adopted at international financial institutions (IFIs) and promoted by the finance ministers' forums	Progress will be measured through the results of various bilateral and multilateral negotiations and initiatives
Data Sources	Policies and communiqués in international initiatives and negotiations	Communiqués and reports of finance ministers' forums and IFI's	Policies and communiqués in international initiatives and negotiations (see http://www.fin.gc.ca and http://www.clubdeparis.org)
Frequency	Ongoing	Periodic	Ongoing
Target	International meetings and negotiations	Multiple, depending on forum and issue	International meetings and negotiations
Target Date	Ongoing	Ongoing	Ongoing
Actual	Canada was actively engaged in FIPA negotiations with several countries and continued to make progress in these negotiations. FIPAs with India and Peru were subsequently successfully completed Budget 2007 announced Canada's Global Commerce Strategy to expand our bilateral trade network, develop a more comprehensive trade and investment relationship with the U.S., and expand opportunities in fast-emerging markets Participated in all ongoing multilateral, regional, and bilateral	Provided leadership on the reform agenda of the IMF; hosted an important G20 seminar Promoted an initiative to achieve mutual recognition of securities among G7 countries Provided support to the EITI; and maintained the network of finance counsellor positions abroad and expanded it with a new position in Beijing Effectively implemented changes to the International Assistance Envelope Other policy positions promoted and approved in 2006–07 include: stronger IFI coordination to foster application of existing international	Participated in and, when necessary, influenced outcomes of in all international meetings and negotiations (e.g. Paris Club, and executive boards of the IMF and World Bank)

Expected Results / Performance Measurement	1. Stronger international trading system and more open markets	2. Policy positions and proposals that improve prospects for global economic and financial stability and better financial governance	3. Effective international initiatives to strengthen developing economies
	trade and investment negotiations Actively involved in a number of initiatives under the SPP, including liberalization of NAFTA rules of origin Participated in and, when necessary, influenced outcomes of all OECD meetings and negotiations	standards and best practices in the fiscal area and further measures to strengthen good governance in public finance Ongoing commitment to fighting money laundering, terrorist financing, and other illicit financing Advance Market Commitment Pilot Governance and Anti-Corruption Strategy of the World Bank Ongoing work to improve the debt sustainability framework of the World Bank and the IMF	
Date of Actual	Agreement with India concluded in June 2007 Budget in March 2007	Ongoing	Ongoing
Performance Status	Successfully met expectations	Successfully met expectations	Successfully met expectations

Program Activity 7: Public Debt

The Department is responsible for the management of the government's debt program, including the design and implementation of the debt strategy and the payment of interest costs on existing debt instruments and the servicing costs for new borrowings. The *Financial Administration Act*, Part IV, provides authority to the Minister of Finance to borrow in financial markets. The actively managed market debt instruments of the government include bonds, Treasury bills, Canada Savings Bonds, and foreign currency liabilities. (Public debt costs also include the government's pension plan liabilities, which are not actively managed.)

The Department also assists the Minister in governing the borrowing activities for the major government entities that are backed by the full faith and credit of the government, such as agent Crown corporations and similar entities. Ministerial approval of borrowing plans, as required under the *Financial Administration Act*, ensures their borrowing is cost-effective and in keeping with the principles of prudent risk management. This program activity enables the government as a whole to limit the overall cost of interest on government debt.

Financial resources ($ thousands)

Planned Spending	Authorities	Actual Spending
34,395,000	34,108,504	34,108,504

Human resources (FTEs)

Planned	Actual	Difference
57	43	14

Public Debt Expected Results	Priority Supported
Stable low-cost financing for the Government of Canada	Sound Fiscal Management
A well-functioning market in Government of Canada securities* * Costs are reported under the Financial Sector Policy program activity	
A cost-effective retail debt program	

This program activity supports the sound fiscal management priority of the Department by ensuring that debt costs are kept low and stable over time. Debt service is the largest spending program of the federal government. The prudent and effective management of the government's debt continues to be an important element of the Department's strategy for sound fiscal management. The focus for 2006–07 has been on reviewing and evaluating the effectiveness of debt management and Treasury management frameworks and programs. The Department also has worked to implement changes to the retail debt program to enhance cost-effectiveness.

Changes to the government's fiscal needs pose strategic and operational challenges for debt and cash management, which are carried out through the maintenance of diversified, flexible borrowing programs. Operational risks are addressed through business continuity planning.

Failure to maintain a well-functioning market can affect both the government and market participants. Risks are managed through the maintenance of strict auction participation rules, flexibility to adjust issuance, and active market surveillance

Expected results

1. Stable, low-cost Government of Canada borrowing

The government's operational needs are met through borrowing from capital markets. The government's debt structure (the mix of fixed- and floating-rate debt) is managed to ensure that debt costs are kept low and stable over time.

In 2006–07, debt strategy operations and initiatives continued to focus on adjusting the structure of the debt and on maintaining a well-functioning market for Government of Canada securities in an environment of declining borrowing needs. Notable results include the following:

- the continuation of the orderly adjustment of the fixed-rate share of the debt stock from 66 per cent fixed to the 2007–08 target of 60 per cent an adjustment that is expected to be completed in 2007–08 and thereafter to provide estimated debt-cost savings of $500 million per year, on average;
- the decision, announced in Budget 2007, to consolidate the borrowings of agent Crown corporations (Business Development Bank of Canada, Canada Mortgage and Housing Corporation, and Farm Credit Corporation) to reduce costs and enhance the liquidity of the Government of Canada securities market; and
- the completion of an external review of Receiver General cash management, which was generally favourable with respect to the government's current polices and practices in this area. The evaluation report is posted on the Department of Finance Canada's website (see http://www.fin.gc.ca/efa/Report2006_e.html).

Performance information is also available in the results of auctions (posted on the Bank of Canada's website) and the level of liquidity and trading in the secondary market. The Debt Management Report (see http://www.fin.gc.ca/purl/dmr-e.html) includes a section dedicated to debt, cash, and reserves management measures.

2. A well-functioning market in Government of Canada securities

A well-functioning wholesale market in Government of Canada securities benefits the government and a wide range of market participants. For the government as a debt issuer, a well-functioning market attracts investors and ensures that funding costs are kept low. For market participants, a liquid and active secondary market in government debt provides risk-free assets for investment portfolios, a pricing benchmark for other instruments, and a primary tool for hedging risk.

Results achieved in this area include the following:

- the decision to consolidate Crown corporation borrowing (see 1 above), which supports a well-functioning market in an environment of declining borrowing needs;
- continued reduction of operational turnaround times, which lowers risk for auction participants; and
- continued transparency and public engagement on debt program issues through market consultations and presentations, departmental publications on debt management (see http://www.fin.gc.ca/access/fininste.html#Markets), and notices on the Bank of Canada's website (http://www.bank-banque-canada.ca/en/notices_fmd/index.html), all of which promote informed decisions by investors and greater participation in the Government of Canada securities market.

3. A cost-effective retail debt program

In October 2006, the government celebrated the 60th anniversary of Canada Savings Bonds (CSBs), and the CSB advertising campaign continues to be one of the most recognized Government of Canada programs. As in prior years, the government sold CSBs and Canada Premium Bonds over a six-month period from October 2006 to April 2007. Sales were made through two channels: payroll and cash through financial institutions and directly from the government.

Retail debt sales for 2006–07 were $1.9 billion. Payroll sales increased slightly from the prior year, while cash sales remained low in the face of a highly competitive marketplace. Taking into account redemptions of $4.0 billion, the overall retail debt portfolio fell from some $17.3 billion to about $15.1 billion. The decline was directionally in keeping with the overall decline in federal government indebtedness and an environment of lower interest rates and increased competition from private-sector retail instruments. Detailed information on program outcomes will be available in the 2006–07 debt management report (see http://www.fin.gc.ca/purl/dmr-e.html) that will be tabled in Parliament and posted on the website of the Department shortly after the publication of the Public Accounts in the fall.

In the context of focussing on the priorities of Canadians by streamlining programs, the government decided to rationalize the administration of the retail debt program by winding up its special operating agency, Canada Investment and Savings, and transferring its functions back to the Bank of Canada and the Department. On March 31, 2007, the rationalization was undertaken to reduce program costs and is expected to produce future administrative cost savings of some $5 million per year.

Total expenditures for the retail debt program were $87.8 million, $3.2 million below the detailed expenditure plan of $91.0 million and well under the budgetary cap of $105.0 million for 2006–07. This represents the seventh consecutive year of expenditure reduction.

Performance measurement

Expected Results / Performance Measurement	**1. Stable low-cost financing for the Government of Canada**	**2. A well-functioning market in Government of Canada securities**	**3. A cost-effective retail debt program (RDP)**
Performance Indicators	Measures of operational performance (e.g. interest costs, fixed-floating shares of debt, average term to maturity)	Measures of market performance (e.g. turnover, trading spreads)	RDP budget of $105,045,000
Data Sources	Fiscal Monitor, Debt Management Report	Debt Management Report	RDP expenditures
Frequency	Monthly and annual	Annual	Annual
Target	Stable low-cost financing	Liquid markets for Government of Canada securities	Manage the RDP within the budget of $105,045,000
Target Date	Ongoing	Ongoing	March 31, 2007
Actual	Stable low-cost financing	Liquid markets for Government of Canada securities	Total expenditure was $87.8 million with further savings to be obtained in future
Performance Status	Successfully met expectations	Successfully met expectations	On track to meet expectations

Program Activity 8: Domestic Coinage

The Department provides advice to the Minister on the currency system, which involves the production of bank notes by the Bank of Canada and circulating coinage by the Royal Canadian Mint. This entails the negotiation and oversight of the payment of production and distribution costs in the domain of domestic circulating coinage.

Financial resources ($ thousands)[2]

Planned Spending	Authorities	Actual Spending
83,100	135,602	135,602

Domestic Coinage Expected Result	Priority Supported
A supply of coinage at a reasonable cost	Sound Fiscal Management

This program activity supports the sound fiscal management priority of the Department by ensuring that domestic circulating coinage continues to be supplied to the economy at a reasonable cost.

Priority 1: Sound fiscal management

Expected results

1. A supply of coinage at a reasonable cost

The Department of Finance Canada buys domestic circulating coinage from the Royal Canadian Mint and resells it to financial institutions. In 2006–07, owing to increased demand for coins in the economy, the volume and overall cost of coin production was significantly higher than in previous years. Details on the volume of coin production in 2006 can be found in the Mint's annual report (http://www.mint.ca/royalcanadianmintpublic/index.aspx?RequestedPath=/en-CA/Home/default.htm).

The Department and the Mint work together to ensure that the supply of coinage meets the needs of the economy. In 2006–07, the Department and the Mint operated under a new memorandum of understanding (MOU) that provided the Mint with incentives to enhance productivity and efficiency with respect to the production and distribution of circulation coins. Under the new arrangement, the Mint was able to significantly reduce unit production costs.

During the year, the Mint also produced four commemorative coins that were well received by Canadians. The demand for these coins from collectors increased the amount of seigniorage earned by the Government of Canada. Seigniorage is the net revenue derived from the issuance of currency. It is the difference between the face value of coins produced and the cost of producing and distributing them. Seigniorage on all circulating coinage is estimated to be $67 million in 2006–07.

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[2] See Note 7, Table 1, for an explanation of the variance.

Performance measurement

Expected Results / Performance Measurement	1. A supply of coinage at a reasonable cost to meet the needs of the economy
Performance Indicators	Regular audit of payments to the Mint for domestic coinage supply and distribution
Data Sources	Public Accounts
Frequency	As required
Target	Efficient coinage system
Target Date	Ongoing
Actual	Needs of economy met at lowest cost
Performance Status	Successfully met expectations

Program Activity 9: Transfer Payments to Provinces and Territories

This program activity administers transfer and taxation payments to provinces and territories in accordance with legislation and negotiated agreements to provide for fiscal equalization and support for health and social programs and other shared priorities. The transfer and taxation payments include several elements:

- Equalization and TFF are unconditional transfer payments made to provincial and territorial governments in accordance with the constitutional commitment to enable provinces to provide reasonably comparable levels of public services at reasonably comparable levels of taxation and the commitment to territorial governments to support the provision of services in the North, taking into account the higher costs.
- The Canada Health Transfer provides support for health care to provincial and territorial governments in support of the government's commitment to maintain the national criteria and conditions of the *Canada Health Act* (comprehensiveness, universality, portability, accessibility, and public administration) and the prohibitions against user fees and extra-billing.
- The Canada Social Transfer (CST) provides support to provincial and territorial governments to assist them in financing post-secondary education, social assistance and social services, and support for children. The CST also supports the government's commitment to prohibit minimum residency requirements for social assistance.
- In addition, this program activity administers a number of smaller government commitments to provide additional support to provinces and territories, including the Wait Times Reduction Transfer, Alternative Payments for Standing Programs, the Youth Allowances Recovery program, statutory subsidies, the 2005 Arrangement between the Government of Canada and the Government of Newfoundland and Labrador on Offshore Revenues, the 2005 Arrangement between the Government of Canada and the Government of Nova Scotia on Offshore Revenues, and a number of third-party trust funds that provide targeted support for health, post-secondary education, and other priorities. (Natural Resources Canada administers offset payments to Newfoundland and Labrador under the *Canada Newfoundland Atlantic Accord Implementation.*)

Financial resources ($ thousands)

Planned Spending	Authorities	Actual Spending
38,631,828	38,441,221	38,441,221

Transfer Payments Expected Results	Priority Supported
Financial support for Canadian provinces and territories to assist them in providing public services, universally accessible health care services, post-secondary education, and social assistance	Sound Social Policy Framework

These transfers to provinces and territories contribute to the strategic outcome and priorities of the Department by supporting the broad Sound Social Policy Framework, as described in the report on plans and priorities. These transfers provide significant support to provinces and territories, assisting them in providing important programs and services for Canadians, including health care, education, social programs, and infrastructure. Further, the government-wide priority to restore the fiscal balance is addressed through the enhancement to the transfer programs proposed in Budget 2007.

1. Financial support for Canadian provinces and territories to assist them in providing public services, universally accessible health care services, post-secondary education, and social assistance

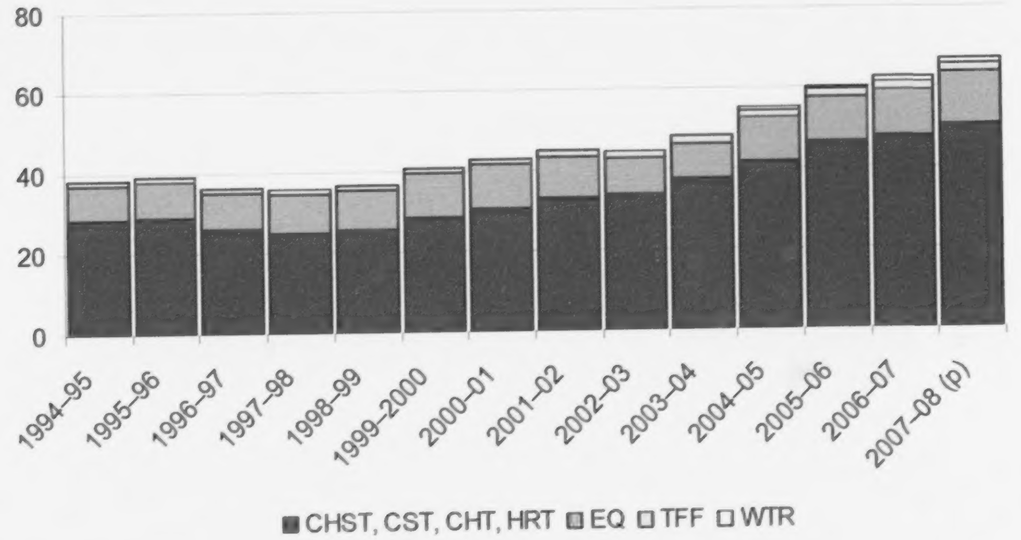
The Department successfully undertook all the ongoing activities described in the 2006–07 RPP. The objective for 2006–07 was to ensure that the various acts and regulations governing the programs were followed. The Department successfully met this objective.

The *Federal-Provincial Fiscal Arrangements Act* and related regulations establish Equalization and TFF payment amounts for 2006–07 and require that the Department issue two re-estimations of CHT and CST payments each year of all "open years," incorporating more up-to-date data as available. In addition, the legislation specifies that payments to provinces and territories for major transfers be made monthly. Over the course of 2006–07, CHT and CST estimates of payments were calculated and released on a semi-annual basis, in the spring and fall. Updated information was provided to provinces and territories, as well as to Parliament, the media, and the public. Payments were also made on a bimonthly basis to provinces and territories, as outlined in the legislation and regulations.

Payments made under the various transfer programs are an important source of revenue for provincial and territorial governments. In 2006–07, major transfers totalled about $62.5 billion, including Equalization payments to eight provinces, totalling $11.5 billion, and TFF payments to the three territories, totalling $2.07 billion.

The CHT and CST provided additional support of nearly $49.2 billion and included both a tax and cash component. Total entitlements to provinces and territories are provided on a per capita basis directly to provincial or territorial finance departments and treasuries, reflecting the cash levels and tax transfer calculations set out in legislation. The value of the tax transfers provided to provinces and territories in lieu of cash payments in the 1960s and 1970s continues to be measured annually as part of the overall support for health and social programs. In 2006–07, the CHT provided $20.1 billion in cash support and $12.7 billion through tax transfers, totalling nearly $32.9 billion. The CST provided $8.5 billion in cash and $7.8 billion in tax transfers, totalling $16.3 billion. The Wait Times Reduction Transfer provided additional, targeted support of $1.2 billion. (Note that Equalization associated with the tax transfers under the CHT/CST is included in both the CHT/CST and Equalization. The total transfer figure, $62.5 billion, has been reduced by $1.3 billion to avoid double counting.)

Federal Transfers, 1994–95 to 2007–08 ($ billion)



Source: Department of Finance Canada

As part of this regular payments process, the Department also administers various trust funds, including trusts established as part of Budget 2006, and will be responsible for the proposed Clean Air and Climate Change Trust, the Patient Wait Times Guarantee Trust, the Transition Trust, and the HPV Immunization Trust proposed in Budget 2007. It also administers several important loans and deferral arrangements currently in place, including the Equalization Repayable Floor loan, deferral of the effects of Census 2001 and Census 2002 taxation data (Equalization and CHST), and deferral of the impact of new residential net capital stock data (Equalization) on Quebec.

With respect to the key commitment to implement new formulas for Equalization and TFF, upon Royal Assent, the formulas introduced in Budget 2007 will be used for 2008–09 payments. Regulations for 2008–09 and future years will need to be developed.

To further ensure the integrity of transfer payments, the Office of the Auditor General of Canada audits all transfers to provinces and territories on an annual basis.

Performance measurement

Expected Results / Performance Measurement	**Financial support for Canadian provinces and territories to assist them in providing public services, universally accessible health care services, post-secondary education, social programs, and other targeted support**
Performance Indicators	Timely and accurate administration of transfer payments
Data Sources	Public Accounts of Canada
Frequency	Annual
Target	Payments must be made according to levels and formulas set out in legislation
Target Date	Bimonthly payments, as well as semi-annual estimates and annual reviews
Actual	Provided accurate and timely payments to provinces and territories pursuant to legislation
Performance Status	Bimonthly payments as well as semi-annual estimates and annual reviews

Program Activity 10: International Financial Organizations

This program activity is responsible for administering Canada's international financial commitments aimed at improving outcomes in the developing economies. The program activity also administers transfer payments, in cooperation with Export Development Canada and the Canadian Wheat Board, to provide debt relief to developing countries as agreed to at the Paris Club. In addition, the program activity administers the issuance and encashment of demand notes and capital subscriptions for Canada's commitments with international financial institutions, such as the International Development Association, the IMF, and the EBRD to provide international assistance to developing countries.

Financial resources ($ thousands)

Planned Spending	Authorities	Actual Spending
733,340	1,150,112	1,006,072

International Financial Organizations Expected Result	Priority Supported
Payments to international organizations and Canadian creditors consistent with the government's commitments	Effective International Presence

This program activity supports the Department's priority of an effective international presence by contributing to international initiatives to improve outcomes in developing economies. In this respect, Canada is committed to finding coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. Canada is also strongly committed to reducing the debt burdens of the most heavily indebted poor countries to sustainable levels. Canada's participation in both bilateral and multilateral debt relief initiatives has helped recipient countries redirect freed-up resources to poverty reduction initiatives to improve the lives of their citizens and reach their long-term development goals. Additionally, international financial institutions are important partners for advancing Canada's own foreign and development policy interests and promoting Canadian core values of freedom, democracy, and the rule of law. Participation in these important global organizations has several benefits. It extends Canada's reach and influence throughout the world by providing Canada with a strong voice as a member and leading donor in these institutions.

Expected result

1. Payments to international organizations and Canadian creditors consistent with the government's commitments

The Department provides timely payments, as required, to a wide range of international financial organizations and Canadian creditors, consistent with the Department's commitments, which play an important role in mobilizing resources for poverty reduction in low-income and least-developed countries.

During 2006–07, Canada played a major role in the establishment of the Multilateral Debt Relief Initiative (MDRI) that cancels all debts owed by eligible countries to the IMF, the African Development Fund, and the International Development Association of the World Bank. The MDRI will cancel approximately U.S.$60 billion in debts owed by the world's poorest countries and will free up resources to be used to reduce poverty. Canada has committed to paying its share of MDRI-related costs, which amount to $2.5 billion over the 50-year lifespan of the Initiative. These costs are funded within the International Assistance Envelope. The Department has submitted its Instrument of Commitment and payment schedule to the three international organizations delivering MDRI debt relief.

In 2006–07, Canada provided the scheduled debt relief agreed to at the Paris Club and under the Canadian Debt Initiative to Cameroon, Poland, and the Democratic Republic of the Congo. Canada also accepted a prepayment proposal made by Russia on its Paris Club-rescheduled debt owed to it.

As part of the 2005–06 fiscal year's risk-based audit plan, the Department of Finance Canada's Audit and Evaluation Committee authorized a review of administrative controls over international obligations and subscription payments under this program activity. The review was undertaken during fiscal year 2006–07, and the report is scheduled to be tabled with the Committee for approval in the 2007–08 fiscal year.

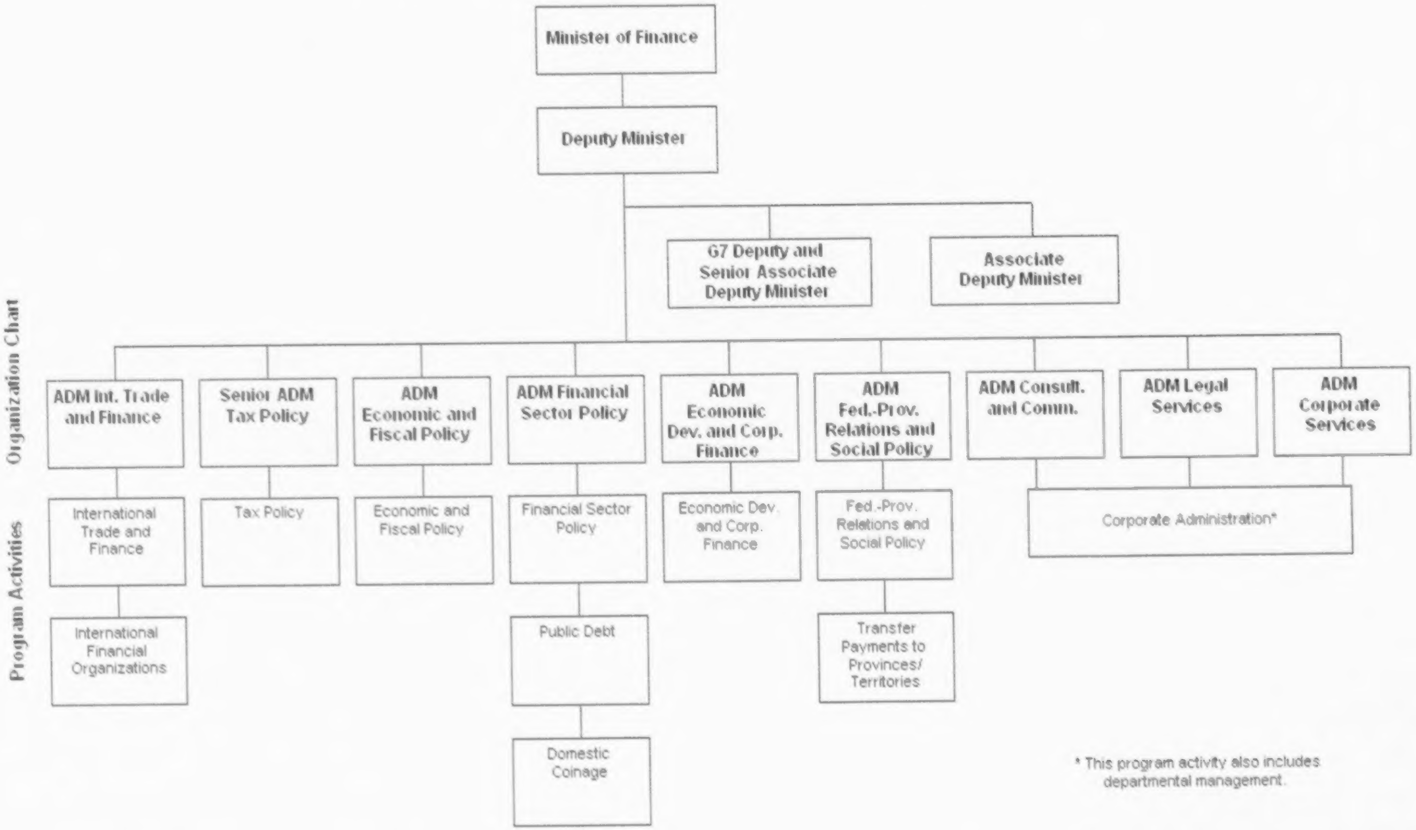
Performance measurement

Expected Results/Performance Measurement	Payments to international organizations and Canadian creditors consistent with the government's commitments
Performance Indicators	Timely payments
Data Sources	Department's financial reporting system
Frequency	Periodic payments
Target	Payments made according to a predetermined schedule or within 30 days of the invoice being received MDRI payments made to appropriate organizations according to the respective instruments of commitment
Target Date	Ongoing
Actual	Canada provided scheduled debt relief to a number of countries and worked with other debtor nations to allow for a prepayment of debt owed to Canada Payments covering Canada's share of MDRI-related costs were made to the IMF, International Development Association, and African Development Fund
Date of Actual	Ongoing
Performance Status	Successfully met expectations

Section III: Supplementary Information

Organizational Information

Organization Chart and Program Activity Architecture


Minister of Finance
Deputy Minister
G7 Deputy and Senior Associate Deputy Minister
Associate Deputy Minister
Organization Chart
ADM Int. Trade and Finance
Senior ADM Tax Policy
ADM Economic and Fiscal Policy
ADM Financial Sector Policy
ADM Economic Dev. and Corp. Finance
ADM Fed.-Prov. Relations and Social Policy
ADM Consult. and Comm.
ADM Legal Services
ADM Corporate Services
Program Activities
International Trade and Finance
Tax Policy
Economic and Fiscal Policy
Financial Sector Policy
Economic Dev. and Corp. Finance
Fed.-Prov. Relations and Social Policy
Corporate Administration*
International Financial Organizations
Public Debt
Transfer Payments to Provinces/ Territories
Domestic Coinage

* This program activity also includes departmental management.

Governance

The following key committees oversee the Department's governance and decision-making processes:

Executive Committee

Chaired by the deputy minister, the Executive Committee includes the senior associate deputy minister and the assistant deputy minister of each branch. The Executive Committee is responsible for the overall stewardship of the Department and exercises decision-making authority over a variety of matters, including resource allocation and priority setting.

Departmental Coordinating Committee

Chaired by a director general on a rotating basis, this committee provides recommendations to the Executive Committee on policy-related issues that fall within the scope of the Department of Finance Canada's mandate. It has representation from each branch at the director general level.

Management Advisory Committee

This committee is co-chaired by the senior associate deputy minister and the assistant deputy minister, Corporate Services Branch. The Management Advisory Committee makes and reviews recommendations to the Executive Committee. Its mandate covers the examination of department-wide plans, strategies, policies, and issues related to key administrative matters within the Department.

Audit and Evaluation Committee

The Audit and Evaluation Committee (AEC) approves the internal audit plan and associated resources based on a sound assessment of risks facing the Department. The AEC also approves evaluation plans for the Department. At the end of each internal audit and evaluation engagement, the AEC reviews and approves the final reports and associated management action plans and ensures that the results of internal audits and evaluations are incorporated into departmental priority-setting, planning, and decision-making processes. This committee is chaired by the deputy minister and meets on a quarterly or as-needed basis.

Financial Performance

This section provides a summary of the Department's financial performance, which is reported against the Department's 10 program activities. Corporate administration is distributed among the other program activities' operating costs, based on the percentage share of the operating budget in 2006–07.

The majority of the financial tables present a comparison of "Main Estimates," "Planned Spending," "Total Authorities," and "Actual." "Main Estimates" figures indicate the resources requested by the Department at the beginning of the fiscal year in order to deliver the programs for which it is responsible. "Planned Spending" is the amount included in the 2006–07 RPP and indicates amounts planned for by the Department and will include known events since the tabling of the Main Estimates. "Total Authorities" include "Main Estimates" and all other authorities approved for the 2006–07 fiscal year. "Actual" reports on total spending during the year as presented in the 2006–07 Public Accounts of Canada.

The remaining tables in this section report on statutory and other requirements. They include the table on major regulatory initiatives, a report on the response to parliamentary committees, a summary of the sustainable development strategy, and a table on travel policies.

Table 1: Comparison of Planned to Actual Spending (including FTEs)

The following table provides a comparison of the “Main Estimates,” “Planned Spending,” “Total Authorities,” and “Actual Spending” for 2006–07, as well as historical figures for “Actual Spending” for the past two fiscal years.

($ thousands)	2004–05 Actual	2005–06 Actual	2006–07			
			Main Estimates	Planned Spending	Total Authorities	Total Actual
Tax Policy[1, 2]	31,893	30,594	30,748	31,742	33,317	30,805
Economic and Fiscal Policy[1]	15,576	14,481	14,504	14,973	15,715	14,500
Financial Sector Policy[1, 3, 4]	20,725	20,993	20,444	21,105	173,561	101,443
Economic Development and Corporate Finance[1]	12,096	7,540	7,755	8,006	8,402	7,799
Federal-Provincial Relations and Social Policy[1, 5]	11,394	14,146	16,690	17,229	18,083	14,497
International Trade and Finance[1]	14,938	14,352	15,496	15,997	16,790	14,903
Public Debt[6]	33,869,946	33,535,120	34,395,000	34,395,000	34,108,504	34,108,504
Domestic Coinage[7]	63,993	127,811	83,100	83,100	135,602	135,602
Transfer Payments to Provinces and Territories[8]	37,746,615	44,160,692	38,330,000	38,631,828	38,441,221	38,441,221
International Financial Organizations[9, 10]	1,454,058	1,908,470	733,340	733,340	1,150,112	1,006,072
Total	**73,241,234**	**79,834,199**	**73,647,077**	**73,952,320**	**74,101,307**	**73,875,346**
Less: Non-respendable revenue[11]	6,755,020	3,694,155	N/A	185,148	N/A	4,639,937
Plus: Cost of services received without charge[12]	17,955	12,385	N/A	13,205	N/A	18,774
Total Departmental Spending*	**66,504,169**	**76,152,430***	**73,647,077**	**73,780,377**	**74,101,307**	**69,254,182**
Full-time Equivalents[13]	**833**	**813**	**N/A**	**901**	**N/A**	**790**

** Due to rounding, figures may not add to totals shown.*

Notes:

1. Variances between "Total Authorities" and "Actual" includes $4.4 million in operating budget surpluses from Internal Services allocations primarily attributable to frozen funding of technical accounting adjustment for recovery of legal services by the Department of Justice Canada and advertising funds not required for Budget 2007.
2. Tax Policy program activity additional variances between "Total Authorities" and "Actual" are attributable to staff turnover and lower-than-expected costs in relation to the Expert Panel on Disability Savings and delayed negotiations on Aboriginal tax matters.
3. Financial Policy Sector program activity "Total Authorities" includes the following items not included in "Planned Spending": $69 million of Unused authority for payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment Corporation, and Northland Bank pursuant to the *Financial Institutions Depositors Compensation Act*; $2 million for Payment of liabilities previously transferred to revenues; $5 million for Advances to the Financial Consumer Agency of Canada; and $76 million for Net loss on exchange in relation to re-evaluations of cross-currency swaps.
4. Financial Sector Policy program activity variance of "Total Authorities" to "Actual" is primarily attributable to the $69 million of Unused authority for payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment, and Northland Bank and also includes variances for internal services surpluses an mentioned in 1. above and lower-than-expected costs for the final year of the Financial Action Task Force presidency.
5. Federal Provincial Relations and Social Policy program activity variance of "Total Authorities" to "Actual" is attributable in part to internal services surpluses as mentioned in 1. above and lower-than-expected costs to finalize the work of the Expert Panel on TFF and Equalization.
6. Public Debt program activity variance of "Planned Spending" to "Actual" is attributable to a larger-than-expected decline in the stock of interest-bearing debt.
7. Domestic coinage program activity variances from "Planned Spending" to "Total Authorities" and "Actual" are due to a higher demand for coinage from the economy and the associated higher cost to produce and distribute coinage to meet this higher demand. See Table 6 for a corresponding increase in revenues associated with the sale of domestic coinage.
8. The Transfer Payments to Provinces and Territories program activity "Planned Spending" primarily includes an additional amount not in the Main Estimates of $46,400 thousand for TFF due to data revisions and a $225,428 thousand increase in equalization transfer payments. Details on transfer payments can be found in Table 10 of this report. Variances between "Planned Spending" and "Total Authorities" and "Actual" is primarily attributable to an increase in Alternative Payments for Standing Programs of $182,016 thousand and an increase in Youth Allowances Recovery of $7,787 thousand.
9. The International Financial Organizations program activity "Total Authorities" includes adjustments for the following items not in "Planned Spending": $44,820 thousand for net loss on exchange for international payments; $63,648 thousand for funding available for use from previous years for Payments to the IMF's Proverty Reduction and Growth Facility; $318,270 thousand for issuance and payment of non-interest bearing, non-negotiable demand notes to the International Development Association in accordance with the *Bretton Woods and Related Agreements Act*; a reduction of $5,595 thousand for a transfer of Vote 5, Grants and Contributions, funding to Foreign Affairs and International Trade Canada; and finally statutory adjustments to reflect a reduction in actual authority required of $3,400 thousand for Payments to the IMF's Poverty Reduction and Growth Facility and $974 thousand for issuance of demand notes to the EBRD, Capital Subscriptions.
10. The International Financial Organizations program activity variance between "Total Authorities" and "Actual" is primary attributable to a lapse of $83,007 thousand in Vote 5, Grants and Contributions, and mainly due to heavily indebted poor countries not meeting the IMF program requirements as per multilateral debt relief initiatives agreed to at the Paris Club and $61,033 thousand of the funding available for use from previous years for Payments to the IMF's Poverty Reduction and Growth Facility.
11. Details of the Non-respendable revenue are listed in Table 6 of this report.
12. Details of the Cost of services received without charge are listed in Table 4 of this report.
13. FTEs has a variance of 111 FTEs from "Planned Spending" to "Actual." This variance is attributable in part to staff vacancies as a result of unexpected leaves (maternity and other), secondments, and employees leaving the Department for positions in the private sector or other departments. Additionally, there was a significant variance in the Public Debt program activity as a result of the Canada Investment and Savings transfer to the Bank of Canada.

Table 2: Resources by Program Activity

The following table details how resources are used in the 2006–07 fiscal year showing the budgetary and non-budgetary items by program activity.

2006–07 ($ thousands)								
	Budgetary						Plus: Non-budgetary	
Program Activity	Operating	Grants	Contributions and Other Transfer Payments	Total: Gross Budgetary Expenditures	Less: Respendable Revenue (1)	Total: Net Budgetary Expenditures	Loans, Investments, and Advances	Total
Tax Policy								
Main Estimates	30,865	—	—	30,865	117	30,748	—	30,748
Planned Spending	31,859	—	—	31,859	117	31,742	—	31,742
Total Authorities	33,434	—	—	33,434	117	33,317	—	33,317
Actual Spending	30,805	—	—	30,805	—	30,805	—	30,805
Economic and Fiscal Policy								
Main Estimates	14,559	—	—	14,559	55	14,504	—	14,504
Planned Spending	15,028	—	—	15,028	55	14,973	—	14,973
Total Authorities	15,770	—	—	15,770	55	15,715	—	15,715
Actual Spending	14,500	—	—	14,500	—	14,500	—	14,500
Financial Sector Policy								
Main Estimates	20,521	—	—	20,521	77	20,444	—	20,444
Planned Spending	21,182	—	—	21,182	77	21,105	—	21,105
Total Authorities	168,638	—	—	168,638	77	168,561	5,000	173,561
Actual Spending	96,443	—	—	96,443	—	96,443	5,000	101,443
Economic Development and Corporate Finance								
Main Estimates	7,784	—	—	7,784	29	7,755	—	7,755
Planned Spending	8,035	—	—	8,035	29	8,006	—	8,006
Total Authorities	8,431	—	—	8,431	29	8,402	—	8,402

2006–07 ($ thousands)								
	Budgetary						Plus: Non-budgetary	
Program Activity	Operating	Grants	Contributions and Other Transfer Payments	Total: Gross Budgetary Expenditures	Less: Respendable Revenue (1)	Total: Net Budgetary Expenditures	Loans, Investments, and Advances	Total
Actual Spending	7,799	—	—	7,799	—	7,799	—	7,799
Federal—Provincial Relations and Social Policy								
Main Estimates	16,753	—	—	16,753	63	16,690	—	16,690
Planned Spending	17,292	—	—	17,292	63	17,229		17,229
Total Authorities	18,146	—		18,146	63	18,083	—	18,083
Actual Spending	14,497	—		14,497	—	14,497	—	14,497
International Trade and Finance								
Main Estimates	15,555	—	—	15,555	59	15,496	—	15,496
Planned Spending	16,056	—	—	16,056	59	15,997	—	15,997
Total Authorities	16,849	—		16,849	59	16,790	—	16,790
Actual Spending	14,903	—		14,903	—	14,903	—	14,903
Public Debt								
Main Estimates	34,395,000	—	—	34,395,000	—	34,395,000	—	34,395,000
Planned Spending	34,395,000	—	—	34,395,000	—	34,395,000	—	34,395,000
Total Authorities	34,108,504	—	—	34,108,504	—	34,108,504	—	34,108,504
Actual Spending	34,108,504	—	—	34,108,504	—	34,108,504	—	34,108,504
Domestic Coinage								
Main Estimates	83,100	—	—	83,100	—	83,100	—	83,100
Planned Spending	83,100	—	—	83,100	—	83,100	—	83,100
Total Authorities	135,602	—	—	135,602	—	135,602	—	135,602
Actual Spending	135,602	—	—	135,602	—	135,602	—	135,602

2006–07 ($ thousands)								
	Budgetary						Plus: Non-budgetary	
Program Activity	Operating	Grants	Contributions and Other Transfer Payments	Total: Gross Budgetary Expenditures	Less: Respendable Revenue (1)	Total: Net Budgetary Expenditures	Loans, Investments, and Advances	Total
Transfer Payments to Provinces and Territories								
Main Estimates	—	—	38,330,000	38,330,000	—	38,330,000	—	38,330,000
Planned Spending	—	—	38,631,828	38,631,828	—	38,631,828	—	38,631,828
Total Authorities	—	—	38,441,221	38,441,221	—	38,441,221	—	38,441,221
Actual Spending	—	—	38,441,221	38,441,221	—	38,441,221	—	38,441,221
International Financial Organizations								
Main Estimates		349,200	376,669	725,869	—	725,869	7,471	733,340
Planned Spending		349,200	376,669	725,869		725,869	7,471	733,340
Total Authorities	44,820	332,018	448,505	825,343	—	825,343	324,768	1,150,112
Actual Spending	44,820	249,011	387,472	681,303	—	681,303	324,768	1,006,072

** Due to rounding, figures may not add to totals shown.*

Note:

1. Respendable revenue for the Department includes amounts received for the sale of documents. During 2006–07, approximately $117 thousand was received and erroneously coded to non-respendable revenue.

See Table 1 for explanations of variances.

Table 3: Voted and Statutory Items

The following table explains the way Parliament votes resources to the Department, including vote appropriations and statutory authorities for both budgetary and non-budgetary items. Parliament approves the voted funding and statutory information is provided for information purposes.

Vote or Statutory Item	Truncated Vote or Statutory Wording	2006–07 ($ thousands)			
		Main Estimates	Planned Spending	Total Authorities	Total Actual
1	Operating expenditures	93,135	96,551	102,606	89,286
5	Grants and contributions	404,200	404,200	398,605	315,598
10	Transfer payments to provinces and territories	0	—	0	—
(S)	Minister of Finance—Salary and motor car allowance	73	73	73	73
(S)	Contributions to employee benefit plans	12,429	12,429	11,761	11,761
(S)	Transfer payment to territorial governments	2,070,000	2,116,400	2,118,264	2,118,264
(S)	Payments to the International Development Association (IDA)	318,269	318,269	318,270	318,270
(S)	Payments to the IMF's Poverty Reduction and Growth Facility (PRGF)	3,400	3,400	63,648	2,615
(S)	Purchase of domestic coinage	83,100	83,100	135,602	135,602
(S)	Public debt—Interest and other costs	34,395,000	34,395,000	34,108,504	34,108,504
(S)	Statutory subsidies	32,000	32,000	31,821	31,821
(S)	Fiscal equalization	11,282,000	11,537,428	11,535,064	11,535,064
(S)	Canada Health Transfer	20,140,000	20,140,000	20,139,876	20,139,876
(S)	Canada Social Transfer	8,500,000	8,500,000	8,500,000	8,500,000
(S)	Youth allowances recovery	(699,000)	(699,000)	(706,788)	(706,788)
(S)	Alternative payments for standing programs	(2,995,000)	(2,995,000)	(3,177,016)	(3,177,016)
(S)	Payments pursuant to the *Halifax Relief Commission Pension Commission Act*	—		18	18

Vote or Statutory Item	Truncated Vote or Statutory Wording	2006–07 ($ thousands)			
		Main Estimates	**Planned Spending**	**Total Authorities**	**Total Actual**
(S)	Payments to depositors of Canadian Commercial Bank, CB Mortgage Invt. Corp., and Northland Bank pursuant to the *Financial Institutions Act*	—		68,572	—
(S)	Payment of liabilities previously transferred to revenue	—		2,075	2,075
(S)	Spending of proceeds from the disposal of surplus Crown assets	—		28	—
(S)	Refunds of amounts credited to revenues in previous years	—		—	—
(S)	Net loss on exchange	—		120,555	120,555
(S)	Advances pursuant to section 13(1) of the *Financial Consumer Agency Act*	—		5,000	5,000
(L15)	Issuance and payment of demand notes to the IDA	0	—	318,270	318,270
(S)	Issuance of demand note to the EBRD—Capital subscriptions	—	—	—	—
(S)	Payments and encashments of notes to the EBRD—Capital subscriptions	7,471	7,471	6,498	6,498
(S)	Issuance of loans to the IMF's PRGF	—	—	—	—
	Total*	**73,647,077**	**73,952,321**	**74,101,307**	**73,875,346**

* *Due to rounding, figures may not add to totals shown.*

Table 4: Services Received Without Charge

The following table provides the cost of services received without the change for 2006–07 fiscal year.

($ thousands)	2006–07
Accommodation provided by Public Works and Government Services Canada	9,718
Contributions covering the employer's share of employees' insurance premiums and expenditures paid by the Treasury Board of Canada Secretariat (excluding revolving funds). Employer's contribution to employees' insured benefits plans and associated expenditures paid by the Treasury Board of Canada Secretariat	4,898
Salary and associated expenditures of legal services provided by the Department of Justice Canada	4,158
Total 2006–07 Services received without charge	**18,774**

Table 5: Loans, Investments, and Advances (Non-budgetary)

The following table provides details by program activity on non-budgetary items for which the Department is responsible.

			2006–07			
($ thousands)	**Actual 2004–05**	**Actual 2005–06**	**Main Estimates**	**Planned Spending**	**Total Authorities**	**Actual**
International Financial Organizations						
Issuance and payment of demand notes to the IDA	230,134	318,270	0	—	318,270	318,270
Issuance and payment of demand notes to the EBRD—Capital subscriptions	6,535	9,157	—	—	—	—
Payment and encashment of notes issued to the EBRD—Capital subscriptions	9,956	15,106	7,471	7,471	6,498	6,498
Issuance of loans to the IMF's PRGF	19,303	89,956	—	—	—	—
Financial Sector Policy						
Advances pursuant to section 13(1) of the *Financial Consumer Agency of Canada Act*	6,000	4,500	—	—	5,000	5,000
Total*	**271,928**	**436,990**	**7,471**	**7,471**	**329,768**	**329,768**

* *Due to rounding, figures may not add to totals shown.*

Table 6: Sources of Respendable and Non-respendable Revenue

The following table identifies the sources of respendable and non-respendable revenue.

Respendable revenue

($ thousands)	Actual 2004–05	Actual 2005–06	2006–07 Main Estimates	2006–07 Planned Revenue	2006–07 Total Authorities	2006–07 Actual[1]
Tax Policy						
Sale of departmental documents	118	—	117	117	117	—
Economic and Fiscal Policy						
Sale of departmental documents	56	—	55	55	55	—
Financial Sector Policy						
Sale of departmental documents	55	—	77	77	77	—
Economic Development and Corporate Finance						
Sale of departmental documents	31	—	29	29	29	—
Federal-Provincial Relations and Social Policy						
Sale of departmental documents	41	—	63	63	63	—
International Trade and Finance						
Sale of departmental documents	58	—	59	59	59	—
Total Respendable Revenue*	**359**	—	**400**	**400**	**400**	—

**Due to rounding, figures may not add to totals shown.*

Note:

1. Respendable revenue for the Department includes amounts received for the sale of documents. During 2006–07, approximately $117 thousand was received and erroneously coded to non-respendable revenue.

Table 6: Sources of Respendable and Non-respendable Revenue (cont'd)

Non-respendable revenue

($ thousands)	Actual 2004–05	Actual 2005–06	2006–07			
			Main Estimates	Planned Revenue	Total Authorities	Actual
Tax Policy						
Refunds of previous years' expenditures—Refund of salaries, goods, and services	21	31				6
Adjustments to prior year's payables	237	296				64
Sales of goods and services—Sale of other publications	26	11				35
Fees—Access to information	2	1				4
Other fees and charges—Sundries	104	—				—
Public Works and Government Services Canada—Consulting and Audit Canada Revolving Fund	26	—				11
Optional Services Revolving Fund	—	9				—
Proceeds from the disposal of surplus Crown assets	3	2				6
Ottawa Civil Service Recreational Association	0	0				—
Economic and Fiscal Policy						
Refunds of previous years' expenditures—Refund of salaries, goods, and services	10	15				3
Adjustments to prior year's payables	111	143				30
Sales of goods and services—sale of other publications	12	5				16
Fees—Access to information	1	1				2
Other fees and charges—Sundries	49	—				—

			2006–07			
($ thousands)	**Actual 2004–05**	**Actual 2005–06**	**Main Estimates**	**Planned Revenue**	**Total Authorities**	**Actual**
Public Works and Government Services Canada—Consulting and Audit Canada Revolving Fund	12	—				5
Optional Services Revolving Fund	—	4				—
Proceeds from the disposal of surplus Crown assets	1	1				3
Ottawa Civil Service Recreational Association	0	0				—
Financial Sector Policy						
Refunds of previous years' expenditures—Refund of salaries, goods, and services	10	16				4
Adjustments to prior year's payables	110	158				43
Sales of goods and services—Sale of other publications	12	6				23
Fees—Access to information	1	1				3
Other fees and charges—Sundries	48	—				—
Public Works and Government Services Canada—Consulting and Audit Canada Revolving Fund	12	—				8
Optional Services Revolving Fund	—	5				—
Proceeds from the disposal of surplus Crown assets	1	1				4
Ottawa Civil Service Recreational Association	0	0				—
Cash and accounts receivable—Cash—Chartered banks	15,827	27,120				46,004
Cash and accounts receivable—Cash—Short-term deposits	188,087	143,420				237,066
Cash and accounts receivable—Cash—Receiver General balance at the Bank of Canada	34,639	41,598				68,160

($ thousands)	Actual 2004–05	Actual 2005–06	2006–07 Main Estimates	2006–07 Planned Revenue	2006–07 Total Authorities	2006–07 Actual
Foreign exchange accounts—International reserves held in the Exchange Fund Account—Transfer of profit	1,758,068	1,394,534				1,765,275
Foreign exchange accounts—International Monetary Fund—Subscriptions—Transfer of profit	69,541	49,895				22,753
Loans, investments, and advances—Bank of Canada—Transfer of profit	1,695,959	1,735,610				1,983,529
Loans, investments, and advances—Financial Consumer Agency of Canada	97	112				166
Miscellaneous non-tax revenues—Transfer from the following accounts that were unclaimed or outstanding for 10 years or more: Outstanding Imprest Account—Unclaimed cheques	32,909	31,057				25,929
Miscellaneous non-tax revenues—Unclaimed balances received from the Bank of Canada in respect of chartered banks	3,675	3,829				3,951
Miscellaneous non-tax revenues—Mortgage interest premium	7,171	8,836				10,517
Miscellaneous non-tax revenues—Sundries	134	1,551				215
Economic Development and Corporate Finance						
Refunds of previous years' expenditures—Refund of salaries, goods, and services	5	8				2
Adjustments to prior year's payables	63	75				16
Sales of goods and services—Sale of other publications	7	3				9
Fees—Access to information	1	0				1

($ thousands)	Actual 2004–05	Actual 2005–06	2006–07			
			Main Estimates	Planned Revenue	Total Authorities	Actual
Other fees and charges—Sundries	27	—				—
Public Works and Government Services Canada—Consulting and Audit Canada Revolving Fund	7	—				3
Optional Services Revolving Fund	—	2				—
Proceeds from the disposal of surplus Crown assets	1	0				2
Ottawa Civil Service Recreational Association	0	0				—
Loans, investments, and advances—Canada Development Investment Corporation—Dividend	164,000	199,000				156,000
Loans, investments, and advances—Petro-Canada—Dividend	14,817	—				—
Miscellaneous non-tax revenues—Sale of real property to Canada Lands Company Limited	2,268	2,126				2,070
Miscellaneous non-tax revenues—Sale of Crown Corporations	2,561,657	—				—
Federal-Provincial Relations and Social Policy						
Refunds of previous years' expenditures—Refund of salaries, goods, and services	7	13				3
Adjustments to prior year's payables	81	122				35
Sales of goods and services—Sale of other publications	9	5				19
Fees—Access to information	1	1				2
Other fees and charges—Sundries	36	—				—
Public Works and Government Services Canada—Consulting and Audit Canada Revolving Fund	9	—				6

			2006–07			
($ thousands)	**Actual 2004–05**	**Actual 2005–06**	**Main Estimates**	**Planned Revenue**	**Total Authorities**	**Actual**
Optional Services Revolving Fund	—	4				—
Proceeds from the disposal of surplus Crown assets	1	1				3
Ottawa Civil Service Recreational Association	0	0				—
International Trade and Finance						
Refunds of previous years' expenditures—Refund of salaries, goods, and services	10	16				3
Adjustments to prior year's payables	115	152				32
Sales of goods and services—Sale of other publications	13	6				17
Fees—Access to information	1	1				2
Other fees and charges—Sundries	50	—				—
Public Works and Government Services Canada—Consulting and Audit Canada Revolving Fund	13	—				6
Optional Services Revolving Fund	—	5				—
Proceeds from the disposal of surplus Crown assets	2	1				3
Ottawa Civil Service Recreational Association	0	0				—
Public Debt						
Miscellaneous non-tax revenues—Transfer from matured debt outstanding	4,617	4,965				2,463
Domestic Coinage						
Domestic coinage	110,569	212,942		185,148		226,843
Transfer Payments to Provinces and Territories						
Loans, investments, and advances—Federal-provincial fiscal arrangements	59	59				59

($ thousands)	Actual 2004–05	Actual 2005–06	2006–07 Main Estimates	 Planned Revenue	 Total Authorities	 Actual
Loans, investments, and advances—Municipal Development and Loan Board	307	173				42
International Financial Organizations						
Loans, investments, and advances—United Kingdom—*United Kingdom Financial Agreement Act, 1946*—Deferred Interest	1,767	1,013				335
Loans, investments, and advances—International Monetary Fund—Poverty Reduction and Growth Facility	17,393	16,874				13,679
Loans, investments, and advances—Thailand Financial Assistance Loan	—	—				—
Net gain on exchange	70,190	88,319				74,444
Total Non-respendable Revenue*	**6,755,020**	**3,964,155**		**185,148**		**4,639,937**

* *Due to rounding, figures may not add to totals shown.*

Table 7: Resource Requirements by Branch

The following table presents the distribution of resources to the Department by branch.

	2006–07 ($ thousands)										
	Program Activities										
Branch	**Tax Policy**	**Economic and Fiscal Policy**	**Financial Sector Policy**	**Economic Development and Corporate Finance**	**Federal-Provincial Relations and Social Policy**	**International Trade and Finance**	**Public Debt**	**Domestic Coinage**	**Transfer Payments to Provinces and Territories**	**International Financial Organizations**	**Total**
Tax Policy											
Planned Spending	31,742										31,742
Actual Spending	30,805										30,805
Economic and Fiscal Policy											
Planned Spending		14,973									14, 973
Actual Spending		14,500									14,500
Financial Sector Policy[1]											
Planned Spending			21,105				34,395,000	83,100			34,499,205
Actual Spending			101,443				34,108,504	135,602			34,345,549

	2006–07 ($ thousands)										
	Program Activities										
Branch	**Tax Policy**	**Economic and Fiscal Policy**	**Financial Sector Policy**	**Economic Development and Corporate Finance**	**Federal-Provincial Relations and Social Policy**	**International Trade and Finance**	**Public Debt**	**Domestic Coinage**	**Transfer Payments to Provinces and Territories**	**International Financial Organizations**	**Total**
Economic Development and Corporate Finance											
Planned Spending				8,006							8,006
Actual Spending				7,799							7,799
Federal-Provincial Relations and Social Policy[2]											
Planned Spending					17,229				38,631,828		38,649,057
Actual Spending					14,497				38,441,221		38,455,718
International Trade and Finance[3]											
Planned Spending						15,997				733,340	749,337
Actual Spending						14,903				1,006,072	1,020,975

** Due to rounding, figures may not add to totals shown.*

Notes:

1. Financial Policy Sector Branch variance in the Financial Sector Policy program activity is $76 million for Net loss on exchange in relation to re-evaluations of cross-currency swaps in the Financial Sector Policy program activity. Public Debt program activity variance is attributable to a larger-than-expected decline in the stock of interest-bearing debt, as well as a lower-than-expected effective interest rate. The Domestic coinage program activity variance is due to a higher demand for coinage from the economy and the associated higher cost to produce and distribute coinage to meet this higher demand. See Table 6 for a corresponding increase in revenues associated with the sale of domestic coinage.
2. Federal-Provincial Relations and Social Policy Branch variances in the Transfer Payments to Provinces and Territories program activity are primarily attributable to an increase in Alternative Payments for Standing Programs of $182,016 thousand and an increase in Youth Allowances Recovery of $7,787 thousand.
3. The International Trade and Finance Branch variances between planned and actual numbers are attributable to unused Vote 5 funds of $88,602 thousand. Note that $5,594 thousand of this was transferred to Foreign Affairs and International Trade Canada. In addition the expenditure of $44,820 thousand for a net loss on exchange for international payments was not included in planned spending, nor was the non-budgetary vote L10 of $318,270 thousand for the issuance and payment of non-interest–bearing, non-negotiable demand notes to the International Development Association.

Template 8-A: *User Fees Act*

The following table reports on the user fees administered by the Department.

				2006–07					Planning Years		
A. User Fee	**Fee Type**	**Fee Setting Authority**	**Date Last Modified**	**Forecast Revenue ($000)**	**Actual Revenue ($000)**	**Full Cost ($000)**	**Performance Standard**	**Performance Results**	**Fiscal Year**	**Forecast Revenue ($000)**	**Estimated Full Cost ($000)**
Fees charged for the processing of access requests filed under the *Access to Information Act*	Other goods and services	*Access to Information Act*	1992	8	14	770	Framework under development by the Treasury Board of Canada Secretariat For more information, see http://laws.justice.gc.ca/en/a-1/8.html.	Statutory deadlines met 92% of the time	2007–08	14	972
									2008–09	14	971
									2009–10	14	971

B. Date Last Modified

Not applicable.

C. Other Information

It is the Department's practice to waive fees when the fee is less than $25. Exceptionally, when the circumstances warrant it, additional fees may be waived.

Template 8-B: *Policy on Service Standards for External Fees*

Supplementary information on the Policy can be found at http://www.tbs-sct.gc.ca/est-pre/estime.asp.

A. External Fee	Service Standard	Performance Result	Stakeholder Consultation
Fees charged for the processing of access requests filed under the *Access to Information Act*	For more information, see http://laws.justice.gc.ca/en/U-3.7/index.html	Statutory deadlines met 92% of the time	The service standard is established by the *Access to Information Regulations.* Consultations with stakeholders were undertaken for amendments made in 1986 and 1992.

Table 9: Major Regulatory Initiatives

Supplementary information on progress against the Department's regulatory plan can be found at http://www.tbs-sct.gc.ca/est-pre/estime.asp.

Regulations	Expected Results	Performance Measurement Criteria	Results Achieved
Legislation will be introduced to update the financial institutions statutes that sunset in April 2007, and associated regulations will be brought forward to bring the legislation into force	Legislation/ regulations will be developed	Introduction of new legislation/ regulations	Legislation updating the financial institution statutes was tabled on November 27, 2006. On March 30, 2007, *An Act to amend the law governing financial institutions and to provide for related and consequential matters* (Bill C-37) received Royal Assent. On April 20, 2007, most of the provisions of Bill C-37 came into force. To be fully implemented, the legislation will require regulations. The Department has started working on the development of those regulations.
Regulations will be introduced pursuant to the passage of Bill C-57, which updated the corporate governance provisions in the financial institutions statutes	Regulations will be developed	Introduction of regulations	On November 25, 2005, *An Act to amend certain Acts in relation to financial institutions* (Bill C-57) received Royal Assent. The legislation modernizes the governance framework for federal financial institutions. A part of the legislation and associated regulations were brought into force on November 28, 2006. The final part of the legislation and regulations will be brought forward in 2007–08.
Amendments may be made to regulations under the *Excise Tax Act* (GST/HST and excise taxes), the *Air Travellers Security Charge Act*, the *Excise Act*, and the *Excise Act, 2001*. These acts contain a number of provisions that give regulatory powers to deal with GST/HST, excise tax, and excise duty issues	Through the use of regulations, the government may propose changes to address some issues in the GST/HST excise tax, and excise duty system. Amendments to the regulations are required from time to time to respond to emerging policy and technical issues, including budget-related measures	Release and implementation of GST/HST and excise tax and duty system regulatory amendments to address emerging policy or technical issues	The *Regulations Amending the Artists' Representatives (GST/HST) Regulations* received final publication on June 23, 2006 (SOR/2006-158). The *Regulations Amending and Repealing Certain Regulations Made under Part IX of the Excise Tax Act (Miscellaneous Program)* received final publication on June 23, 2006 (SOR/2006-162). The *Regulations Amending the Taxes, Duties and Fees (GST/HST) Regulations* received final publication on November 9, 2006 (SOR/2006-280).

Regulations	Expected Results	Performance Measurement Criteria	Results Achieved
			A number of regulatory amendments have been proposed in Budget 2006 consequential to the reduction in the GST and the federal component of the HST and the Standardized Accounting initiative.
			The *Draft Regulations amending the Deduction for Provincial Rebate (GST/HST) Regulations* were proposed on October 6, 2006. The *Draft Input Tax Credit Allocation Methods (GST/HST) Regulations* were released on January 26, 2007. The *Interest Rates (Excise Act, 2001) Regulations* received final publication on October 18, 2006 (SOR/2006-229). The *Interest Rates (Excise Tax Act) Regulations* received final publication on October 18, 2006 (SOR/2006-230). Other regulations have been developed and will be ready for publication in 2007–08.
Consequential and technical amendments will also be made to the *CPPIB Regulations* amendments that result from *An Act to amend the CPP and the CPPIB Act*, S.C. 2003, c. 5, which came into force on April 1, 2004	Regulations will be developed as required	Introduction of regulations	The *Regulations amending the CPPIB Regulations* (SOR 2007-13) received final publication on February 21, 2007.

Regulations	Expected Results	Performance Measurement Criteria	Results Achieved
Customs Tariff—The Tariff contains a number of provisions that allow the government to respond to the competitive needs of Canadian industry and to enforce Canada's rights and meet its obligations under international agreements and arrangements to which Canada is a party	Through the use of orders and regulations, the government will continue to respond to the competitive needs of Canadian industry and will enforce Canada's rights and meet its obligations under international agreements and arrangements	Orders in council	In 2006–07, the Department approved 15 requests for tariff elimination on specific products and completed its work to eliminate duties on a very large number of textile products, which resulted in a total amount of ongoing duty relief of about $18 million, in addition to the $39 million of duty relief provided in 2005–06. Three remission orders were also approved, providing duty relief on a temporary basis of approximately $53 million.
Income Tax Act and related Regulations—The *Income Tax Act* contains a number of provisions that give regulatory powers to deal with income tax issues	Through the use of regulations, the government may propose changes to address some issues in the income tax system. Amendments to the regulations are required from time to time to address emerging policy or technical issues, including budget-related measures	Development of regulations	The *Regulations Amending the Income Tax Regulations (Capital Cost Allowance— Introduction of Classes 43.2, 47, 48 and 49)* were published in the *Canada Gazette*, Part II, on June 14, 2006 (SOR/2006-117). The *Regulations Amending the Income Tax Regulations* (*Mining Taxes*) were published in the *Canada Gazette*, Part II, on October 4, 2006 (SOR/2006-207). The *Regulations Amending the Income Tax Regulations (Capital Cost Allowance—Forestry Bioenergy Equipment*) were published in the *Canada Gazette*, Part II, on November 1, 2006 (SOR/2006-249). The Regulations *Amending the Income Tax Regulations (Motor Vehicle Expenses and Benefits 2006)* were published in the *Canada Gazette*, Part II, on November 1, 2006 (SOR/2006-250). The *Regulations Amending the Income Tax Regulations (Natural Resources)* were published in the *Canada Gazette*, Part II, on February 21, 2007 (SOR/2007-19).

Regulations	Expected Results	Performance Measurement Criteria	Results Achieved
			The *Regulations Amending the Income Tax Regulations (Prescribed Forest Management Plans for Woodlots)* were published in the *Canada Gazette*, Part II, on March 7, 2007 (SOR/2007-35). Draft legislative proposals (including proposals relating to the *Income Tax Regulations*) to implement those aspects of the government's Tax Fairness Plan dealing with income trusts and other flow-through entities were released on December 21, 2006. Amendments to the *Income Tax Regulations* relating to certain measures announced or referenced in Budget 2007 were included in Bill C-52 (*Budget Implementation Act, 2007*), which was enacted as S.C. 2007, c. 29 on June 22, 2007.
Amendments to the *Pension Benefits Standards Act, 1985*, and related regulations	Legislative and regulatory amendments will be brought forward to improve the security of pension plan benefits and ensure the viability of defined benefit pension plans	Introduction of legislation/ regulation	In Budget 2006, the Minister of Finance announced proposed funding relief for federally regulated defined benefit pension plans. The draft regulations setting out the detailed proposals were pre-published on June 2, 2006, for a 30-day public consultation period. In November 2006, the *Solvency Funding Relief Regulations* were adopted by the government.

Regulations	Expected Results	Performance Measurement Criteria	Results Achieved
Introduction of securities transfer legislation	Legislation will be brought forward to modernize the securities transfer provisions currently contained in various federal statutes	Introduction of legislation	Initial consultation with stakeholders in the fall of 2006 revealed the need for extensive and detailed public consultation. Budget 2007 included a commitment to release a consultation paper as part of the capital markets plan. The paper was published in June 2007.
Other amendments to the *CPPIB Regulations* may be identified during the federal-provincial triennial review of the CPP, which is scheduled to be completed in 2006	If changes are agreed to by federal and provincial governments, regulations will be developed after the completion of the federal-provincial triennial review of the CPP in 2006	Introduction of regulations	The triennial review concluded in June 2006. Ministers of Finance did not recommend any changes to the CPPIB regulatory framework.
Budget 2005 proposed to amend regulations made under the *Pension Benefits Standards Act, 1985* to remove the requirement that life income funds be used to purchase an annuity when the beneficiary reaches age 80	Regulations will be introduced to remove the requirement to purchase an annuity at age 80	Introduction of regulations	The Regulations amending the *Pension Benefits Regulations, 1985* (SOR 2006-208) received final publication on October 4, 2006.

Regulations	**Expected Results**	**Performance Measurement Criteria**	**Results Achieved**
Amendments to regulations relating to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*	Legislation/ regulations will be introduced to respond to revisions of the Financial Action Task Force on Money Laundering recommendations following public consultation, and to deal with the outcome of the negotiations with the Federation of Law Societies of Canada and the Law Society of British Columbia	Introduction of legislation/ regulation	Bill C-25, *an Act to Amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Income Tax Act and to make a consequential amendment to another Act*, received Royal Assent on December 14, 2006; the *Proceeds of Crime (Money Laundering) and Terrorist Financing Registration Regulations* and *Regulations amending Certain Regulations Made Under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act* were published in the *Canada Gazette*, Part I, on March 10, 2007.
Amendments to the *CPP* and Regulations may be identified during the federal-provincial triennial review of the CPP that is scheduled to be completed in June 2006	Legislation and regulations will be developed	Introduction of legislation and regulations	Tabling of legislation in Parliament (Bill C-36). The Regulations related to the legislative changes are being developed.
Amendment to the *Federal-Provincial Fiscal Arrangements Act* (Budget 2006)	An enactment to amend the *Federal-Provincial Arrangements Act* to determine the amount of the fiscal equalization payments to eligible provinces and the TFF payments to each of the territories for the fiscal year beginning April 1, 2006. Additional targeted support and other housekeeping issues were also addressed	Development and introduction of legislation	The *Budget Implementation Act, 2006* received Royal Assent on June 22, 2006.

Regulations	Expected Results	Performance Measurement Criteria	Results Achieved
Amendment to the *Federal-Provincial Fiscal Arrangements Act* (Budget 2007)	An enactment to amend the *Federal-Provincial Fiscal Arrangements Act* to provide for payments to provinces for fiscal equalization and to territories for TFF for 2007–08 and introduce a renewed formula for fiscal equalization payments to eligible provinces and a renewed formula for TFF to each of the territories for the fiscal years beginning April 1, 2008 and beyond	Development and introduction of legislation and regulations	The *Budget Implementation Act, 2007* was tabled on March 19, 2007. As at March 31, 2007, this legislation has yet to receive Royal Assent. Regulations are to be developed in 2007–08.
Amendment to the *Federal-Provincial Fiscal Arrangements Act* (Budget 2007)	An enactment to amend the *Federal-Provincial Fiscal Arrangements Act* to implement Budget 2007 reforms to the CST, including increasing and extending cash levels to 2013 and a 3% annual escalator. It also moves the CST and CHT to equal per capita cash allocations and provides transition protection against declines	Development and introduction of legislation and regulations	The *Budget Implementation Act, 2007* was tabled on March 19, 2007. As at March 31, 2007, this legislation has yet to receive Royal Assent. Regulations are to be developed in 2007–08.

Regulations	Expected Results	Performance Measurement Criteria	Results Achieved
Establishment of targeted support to provinces and territories in *An Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007*	An enactment within the *Budget Implementation Act, 2007* to create the Clean Air and Climate Change Trust, Patient Wait Times Guarantee Trust, Human Papillomavirus Immunization Trust, and the Transition Trust. It also provides for targeted transfer for child care, transitional payments, and funding related to data revision adjustments.	Development and introduction of legislation and regulations	The *Budget Implementation Act, 2007* was tabled on March 19, 2007. As at March 31, 2007, this legislation has yet to receive Royal Assent.

Table 10: Transfer Payment Programs (TPPs)

Supplementary information on TPPs can be found at http://www.tbs-sct.gc.ca/est-pre/estime.asp.

In the 2006–07 fiscal year, the Department of Finance Canada managed the following Transfer Payment Programs in excess of $5 million (statutory payments are designated with [S]):

1. Compensation to Canadian agencies or entities established by an act of Parliament for reduction of debts of debtor countries (Vote 5)
2. Debt payments to international organizations on behalf of poor countries (Vote 5)
3. Payments to the International Development Association (IDA) (S)
4. Fiscal Equalization (Part I, *Federal-Provincial Fiscal Arrangements Act*) (S)
5. TFF (Part I.1, *Federal-Provincial Fiscal Arrangements Act*) (S)
6. Territorial Payment: Data Revisions (S)
7. Canada Health Transfer (Part V.1, *Federal-Provincial Fiscal Arrangements Act*) (S)
8. Canada Social Transfer (Part V.1, *Federal-Provincial Fiscal Arrangements Act*) (S)
9. Statutory Subsidies (*Constitution Act, 1867*; *Constitution Act, 1982*; and other statutory authorities) (S)
10. Youth Allowances Recovery Program (*Federal-Provincial Fiscal Revision Act, 1964*) (S)
11. Alternative Payments for Standing Programs (S) (Part V.1, *Federal-Provincial Fiscal Arrangements Act*) (S)

Note: In addition to the above transfer payments, other transfer payments were committed to in Budget 2007 and had not yet received Royal Assent prior to the end of the fiscal year and therefore were not identified as charges against the 2006–07 appropriations. However, as the commitment was established prior to the end of the fiscal year, they were recognized as expenses in the Departmental Financial Statements. The following transfer payments will be reported in the 2007–08 DPR:

- Clean Air and Climate Change Trust Fund (*Budget Implementation Act, 2007*) (S)
- Patient Wait Times Guarantee Trust Fund (*Budget Implementation Act, 2007*) (S)
- Transition Trust (*Budget Implementation Act, 2007*) (S)
- Great Bear/Spirit Bear Rainforest Project—Conservation Investments Incentives Initiative
- Transfer Payments to Territorial Governments (Northwest Territories) (*Budget Implementation Act, 2007*) (S)
- Transfer Payments to Territorial Governments (Yukon) (*Budget Implementation Act, 2007*) (S)
- Payment to Ontario (*Budget Implementation Act, 2007*) (S)
- Human Papillomavirus Immunization Trust Fund (*Budget Implementation Act, 2007*) (S)

Program Activity: International Financial Organizations

1) Name of Transfer Payment Program: Compensation to Canadian agencies or entities established by an act of Parliament for reduction of debts of debtor countries

2) Start Date: 1991–92

3) End Date: Ongoing

4) Description: Compensate Export Development Canada (EDC) and the Canadian Wheat Board (CWB) for reduction of debts of debtor countries

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Timely and accurate payments to the EDC and the CWB to compensate for debt relief to debtor countries

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity (PA): International Financial Organizations						
14) Total Grants	92,474	595,828	298,000	286,413	203,405	94,595
15) Total Contributions	60,661	68,799	55,000	66,587	66,587	-11,587
16) Total	153,135	664,627	353,000	353,000	269,992	83,008

17) Comment(s) on Variance(s): The variance mainly resulted from the appreciation of the Canadian dollar on debt owed by Cameroon and the stoppage of payments as a result of the Democratic Republic of the Congo not meeting its conditions for debt relief under the Heavily Indebted Poor Countries Initiative and the Canadian Debt Initiative.

18) Significant Audit and Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Review of International Obligations and Subscriptions in progress

1) Name of Transfer Payment Program: Debt Payments to International Organizations on Behalf of Poor Countries

2) Start Date: 2005–06

3) End Date: Ongoing

4) Description: Payments for Canada's commitment to the G8-led Multilateral Debt Relief Initiative

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Responsible administration of financial obligations under the Multilateral Debt Relief Initiative

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity (PA): International Financial Organizations						
14) Total Grants			51,200	45,605	45,605	5,595
15) Comment(s) on Variance(s): MDRI-related obligations to the IMF, IDA, and African Development Fund amounted to $45.6 million in 2006–07. The balance of the $51.2 million spending authority was transferred to the Canadian International Development Agency to support the Multilateral Investment Fund of the Inter-African Development Bank.						
16) Significant Audit and Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Review of international obligations and subscriptions in progress						

1) Name of Transfer Payment Program: Payments to the International Development Association (IDA) (S)

2) Start Date: 1960–61

3) End Date: Ongoing

4) Description: Encashment of demand notes to allow the IDA to disburse concessional financing for development projects and programs in the world's poorest countries.

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved:

- Responsible administration of financial obligations to the IDA
- Results of IDA operations are detailed in the report on operations under the *Bretton Woods and Related Agreements Act*, which is tabled annually in Parliament

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity (PA): International Financial Organizations						
14) Other transfer payments	292,420	239,741	318,269	318,270	318,270	-1
15) Comment(s) on Variance(s): Not applicable						
16) Significant Audit and Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Review of international obligations and subscriptions in progress						
17) Total for International Financial Organization	445,555	904,368	722,469	716,875	633,867	88,602

Program Activity: Transfer Payments to Provinces and Territories

1) Name of Transfer Payment Program: Fiscal Equalization (Part I, *Federal-Provincial Fiscal Arrangements Act*) (S)

2) Start Date: 1957

3) End Date: Ongoing

4) Description: Equalization payments are provided to eligible provincial governments, based on a formula, to enable them to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Equalization payments are unconditional. In 2006–07, eight provinces received payments under this program.

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Timely and accurate payments that meet all the legislative and regulatory requirements. Provided financial support to Canadian provinces to assist them in providing public services.

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity: Transfer Payments to Provinces and Territories						
14) Other Transfer Payments	10,761,818	10,900,000	11,537,428	11,535,064	11,535,064	2,364

15) Comments on Variances: Result of regular update to program data that took place after submission for the RPP had been made.

16) Significant Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Payments made under this program are audited each year by the Office of the Auditor General of Canada. An expert panel studying the program announced its findings in June 2006. The report can be found at http://www.eqtff-pfft.ca/english/epreports.asp. Budget 2007 contained details of the new formula for Equalization; see http://www.budget.gc.ca/2007/themes/bkrfbse.html.

1) Name of Transfer Payment Program: TFF (Part I.1, *Federal-Provincial Fiscal Arrangements Act*) (S)

2) Start Date: 1985

3) End Date: Ongoing

4) Description: Transfer payments to all territorial governments to support their budgetary revenues, providing them with resources to assist in the provision to their residents of public services that are reasonably comparable to the public services provided by provincial governments while recognizing the unique circumstances in the territories.

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Timely and accurate payments to the territorial governments that meet all the legislative and regulatory requirements. Provided financial support for Canadian territories to assist them in providing public services.

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity: Transfer Payments to Provinces and Territories						
14) Other Transfer Payments	1,962,390	2,000,000	2,070,000	2,071,864	2,071,864	(1,864)

15) Comments on Variances: Result of regular update to program data that took place after submission for the RPP had been made.

16) Significant Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Payments made under this program are audited each year by the Office of the Auditor General of Canada. An internal audit was prepared in May 2002 and is available on the Department of Finance Canada website at http://www.fin.gc.ca/toce/2002/audit_transfers-e.html.

An expert panel studying the program announced its findings in June 2006. The report can be found at http://www.eqtff-pfft.ca/english/epreports.asp. Budget 2007 contained details of the new formula for TFF; see http://www.budget.gc.ca/2007/themes/bkrfbse.html.

1) Name of Transfer Payment Program: Territorial Payments: Data Revisions (S)

2) Start Date: 2004	**3) End Date**: 2007

4) Description: Transfer payments to territorial governments, other than those provided under TFF, for the purpose of taking account of more accurate data

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Financial support for Canadian territories to assist them in providing public services

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity: Transfer Payments to Provinces and Territories						
14) Other Transfer Payments	—	58,000	46,400	46,400	46,400	0

15) Comments on Variances: Not applicable

16) Significant Evaluation Findings and URLs to Last Audit and/or Evaluation: Payments made under this program are audited each year by the Office of the Auditor General of Canada. An internal audit was prepared in May 2002 and is available on the Department of Finance Canada website at http://www.fin.gc.ca/toce/2002/audit_transfers-e.html.

An expert panel studying the program announced its findings in June 2006. The report can be found at http://www.eqtff-pfft.ca/english/epreports.asp. Budget 2007 contained details of the new formula for TFF; see http://www.budget.gc.ca/2007/themes/bkrfbse.html.

1) Name of Transfer Payment Program: Canada Health Transfer (Part V.1, *Federal-Provincial Fiscal Arrangements Act*) (S)

2) Start Date: 2004

3) End Date: Ongoing

4) Description: The Canada Health Transfer (CHT) provides equal per capita support for health care through cash and tax transfers to provincial and territorial governments. The CHT supports the government's commitment to maintain the national criteria and conditions of the *Canada Health Act* (comprehensiveness, universality, portability, accessibility, and public administration) and the prohibitions against user fees and extra-billing.

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Timely and accurate payments to provinces and territories that meet all the legislative and regulatory requirements. Provided financial support to Canadian provinces and territories to assist them in providing universally accessible health care services.

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity: Transfer Payments to Provinces and Territories						
14) Other Transfer Payments	13,650,000	19,000,000	20,140,000	20,139,876	20,139,876	124

15) Comments on Variances: In order for provinces and territories to receive the full cash transfer to which they are entitled, they must comply with the *Canada Health Act* (CHA). Under the CHA, provinces and territories that allow extra-billing and user charges are subject to mandatory dollar-for-dollar deductions. Health Canada makes decisions when deductions are required.

16) Significant Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Payments made under this program are audited each year by the Office of the Auditor General of Canada. An internal audit of the Canada Health and Social Transfer (CHST) was prepared in May 2002 and is available on the Department of Finance Canada website at http://www.fin.gc.ca/toce/2002/audit_transfers-e.html.

*The cash payment of $20.1 billion does not include the value of tax points transferred to provinces and territories. The value of the tax points was $12.7 billion in 2006–07. This provision reflects transfers in 1967 and 1977 by the federal government of tax points to all provinces in place of certain direct cash transfers.

1) Name of Transfer Payment Program: Statutory Funding—Canada Social Transfer (CST)

2) Start Date: 2004

3) End Date: Ongoing

4) Description: The Canada Social Transfer (CST) provides equal per capita support through cash and tax transfers to provincial and territorial governments to assist them in financing post-secondary education, social assistance, and social services, including early childhood development, and early learning and child care services. Provinces and territories have the flexibility to allocate payments among supported areas according to their own priorities. The CST supports the government's commitment to prohibit minimum residency requirements for social assistance.

5) Strategic Outcomes: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Timely and accurate payments to provinces and territories that meet all the legislative and regulatory requirements. Provided financial support for Canadian provinces and territories to assist them in providing post-secondary education, social assistance, and social services, including early childhood development and early learning and child care programs.

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity: Transfer Payments to Provinces and Territories						
14) Other Transfer Payments	7,900,000	8,225,000	8,500,000	8,500,000	8,500,000	0

15) Comments on Variances: Not applicable

16) Significant Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Payments made under this program are audited each year by the Office of the Auditor General of Canada. An internal audit of the Canada Health and Social Transfer (CHST) was prepared in May 2002 and is available on the Department of Finance Canada website at http://www.fin.gc.ca/toce/2002/audit_transfers-e.html. Budget 2007 contained details of significant investments in the CST. See http://www.budget.gc.ca/2007/themes/bkrfbse.html.

* The cash payment of $8.5 billion does not include the value of tax points transferred to provinces and territories. The value of the tax points was $7.8 billion in 2006–07. This provision reflects transfers in 1967 and 1977 by the federal government of tax points to all provinces in place of certain direct cash transfers.

1) Name of Transfer Payment Program: Statutory Subsidies (*Constitution Act, 1867*; *Constitution Act, 1982*; and other statutory authorities) (S)

2) Start Date: 1867

3) End Date: Ongoing

4) Description: The statutory subsidies provide a source of funding to provinces in accordance with terms of entry into Confederation.

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Timely and accurate payments to provinces that meet all the legislative and regulatory requirements.

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity: Transfer Payments to Provinces and Territories						
14) Other Transfer Payments	31,818	31,819	32,000	31,821	31,821	179

15) Comments on Variances: Figure for planned spending was an estimate based on preliminary population data.

16) Significant Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Payments made under this program are audited each year by the Office of the Auditor General of Canada. An evaluation of this transfer program is not required.

1) Name of Transfer Payment Program Youth Allowances Recovery Program (*Federal-Provincial Fiscal Revision Act, 1964*) (S)

2) Start Date: 1964

3) End Date: Ongoing

4) Description: The Youth Allowances Recovery is a recovery from the Province of Quebec for an additional tax point transfer (3 points) above and beyond the CHT and CST tax point transfers (in the 1960s, Quebec chose to use the federal government's contracting-out arrangements for certain federal-provincial programs). Taken together, the Alternative Payments for Standing Programs and the Youth Allowances Recovery are known as the "Quebec Abatement."

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians..

6) Results Achieved: Timely and accurate recoveries from the Province of Quebec that meet all the legislative and regulatory requirements.

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity: Transfer Payments to Provinces and Territories						
14) Other Transfer Payments	(604,094)	(596,447)	(699,000)	(706,788)	(706,788)	7,788

15) Comments on Variances: Result of regular update to program data that took place after submission for the RPP had been made.

16) Significant Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Recoveries made under this program are audited by the Office of the Auditor General of Canada. An evaluation of this transfer program is not required at this time.

1) Name of Transfer Payment Program: Alternative Payments for Standing Programs (S) (Part V.1, *Federal-Provincial Fiscal Arrangements Act*) (S)

2) Start date: 1977

3) End Date: Ongoing

4) Description: The Alternative Payments for Standing Programs are a recovery from the Province of Quebec for an additional tax point transfer (13.5 points) above and beyond the CHT and CST tax point transfers (in the 1960s, Quebec chose to use the federal government's contracting-out arrangements for certain federal-provincial programs). Taken together, the Alternative Payments for Standing Programs and the Youth Allowances Recovery are known as the "Quebec Abatement."

5) Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

6) Results Achieved: Timely and accurate recoveries from the Province of Quebec that meet all the legislative and regulatory requirements.

$ thousands	7) Actual Spending 2004–05	8) Actual Spending 2005–06	9) Planned Spending 2006–07	10) Total Authorities 2006–07	11) Actual Spending 2006–07	12) Variance(s) Between 9) and 11)
13) Program Activity: Transfer Payments to Provinces and Territories						
14) Other Transfer Payments	(2,746,317)	(2,731,180)	(2,995,000)	(3,177,016)	(3,177,016)	182,016

15) Comments on Variances: Result of regular update to program data that took place after submission for the RPP had been made.

16) Significant Evaluation Findings and URL(s) to Last Audit and/or Evaluation: Recoveries made under this program are audited by the Office of the Auditor General of Canada. An evaluation of this transfer program is not required at this time.

17) Total for Transfers to Provinces and Territories	30,962,891	36,887,192	38,631,828	38,441,221	38,441,221	190,607
18) Total Transfer Payments	31,408,446	37,791,560	39,354,297	39,158,096	39,015,088	279,209

Table 11: Horizontal Initiatives

In 2006-07, the Department of Finance was the lead department on the following horizontal initiative:

1. National Initiative to Combat Money Laundering

Supplementary information on horizontal initiatives can be found at http://www.tbs-sct.gc.ca/est-pre/estime.asp.

Horizontal Initiative		
1. Name of Horizontal Initiative: Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime[1]	**2. Name of Lead Department(s):** Department of Finance Canada	
3. Start Date of the Horizontal Initiative: June 2000	**4. End Date of the Horizontal Initiative:** 2009–10	**5. Total Federal Funding Allocation (start to end date):** $329,989[2] ($ thousands)
6. Description of the Horizontal Initiative (including funding agreement): The National Initiative to Combat Money Laundering (NICML) was formally established in 2000 as part of the government's ongoing effort to combat money laundering in Canada. Legislation adopted that year, the *Proceeds of Crime (Money Laundering) Act* (PCMLA), created a mandatory reporting system for suspicious financial transactions, large cross-border currency transfers, and certain prescribed transactions. The legislation also established the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to collect and analyze these financial transaction reports and to disclose pertinent information to law enforcement and intelligence agencies. In December 2001, the PCMLA was amended to include measures to fight terrorist financing activities and renamed the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA). At this time, the Horizontal Initiative was also renamed the Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime. The PCMLTFA was amended in December 2006 to address revised international standards and recommendations made in the 2004 report of the Auditor General of Canada and in a 2004 Treasury Board-mandated evaluation of the regime.		
7. Shared Outcome(s): To detect and deter money laundering and the financing of terrorist activities and to facilitate the investigation and prosecution of money laundering and terrorist financing offences.		
8. Governance Structure(s): The AML/ATF Regime is a horizontal initiative comprised of both funded and non-funded partners. Funded partners include the Department of Finance Canada, the Department of Justice Canada, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Canada Border Services Agency (CBSA)—Immigration and Customs, the Canada Revenue Agency (CRA), and the Royal Canadian Mounted Police (RCMP); non-funded partners include Public Safety Canada (PS) and the Canadian Security Intelligence Service (CSIS). An interdepartmental ADM-level group and working group, consisting of all these partners and led by the Department of Finance Canada, has been established to direct and coordinate the government's efforts to combat money laundering and terrorist financing activities.		

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[1] This initiative was formerly known as the National Initiative to Combat Money Laundering (NICML).

[2] In the 2006–07 fiscal year, Budget 2006 announced new funding for the Horizontal Initiative. As a result, the total federal funding for the program from start to end date is $445.316 million.

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
1. Department of Finance Canada	(a) AML/ATF Regime	$3,000	$300	$297	The Department of Finance Canada is responsible for the development of anti-money laundering and anti-terrorist financing policy, including the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and its Regulations. The Department of Finance Canada coordinates the activities under the Initiative and has a key role in liaison and consultations with stakeholders. The Department also heads Canadian delegations to international anti-money laundering assemblies, e.g. the Financial Action Task Force (FATF).	The Parliamentary Review of the PCMLTFA concluded with an interim report in 2006; Bill C-25, *an Act to Amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Income Tax Act and to make a consequential amendment to another Act*, received Royal Assent on December 14, 2006; the *Proceeds of Crime (Money Laundering) and Terrorist Financing Registration Regulations* and the *Regulations amending Certain Regulations Made Under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act* were published in Part I of the *Canada Gazette* on March 10, 2007.
2. FINTRAC	(a) AML/ATF Regime	$203,285	$21,300	$27,200[3]	FINTRAC is an independent agency that	FINTRAC continued to make case disclosures of

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[3] In the 2006–07 fiscal year, FINTRAC received additional funding, as identified in Budget 2006, of $16.2 million. The majority of these funds were to address existing and ongoing operating pressures while the remaining funds were to implement new programs due to Bill C-25. However, $8 million will be re-profiled for the 2007–08 fiscal year and for 2008–09.

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
					receives, collects, analyzes, assesses, and discloses financial transaction information to assist in the detection, prevention, and deterrence of money laundering and terrorist financing activities. FINTRAC operates at arm's length from the police, federal departments and agencies, and international partners to which it can provide financial intelligence. FINTRAC is also involved in various outreach programs to raise awareness of money laundering and terrorist financing issues.	financial intelligence to law enforcement agencies and CSIS. The increasingly complex cases that were disclosed pinpointed new suspects and financial transactions, and triggered new investigations or provided significant input to ongoing investigations or prosecutions. FIN TRAC also began to plan to incorporate the changes resulting from Bill C-25 into its operations. During the year, FINTRAC conducted compliance examinations in all reporting sectors. FINTRAC compliance staff continued outreach efforts by conducting presentations, meetings, and seminars with reporting entities and associations. Through macro-analysis of its case disclosures and the associated transaction reports, FINTRAC continued to gather valuable insights

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
						into suspected money laundering cases and suspected terrorist financing activity. By sharing strategic information, FINTRAC supported the work of policy makers, domestic partners in law enforcement and national security, the financial community, and international partners.

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
3. Department of Justice Canada	(a) AML/ATF Regime	$11,400	$1,200	$2,304[4]	The Department of Justice Canada is responsible for undertaking prosecutions, specifically, in the case of the Initiative, those arising out of investigations to which FINTRAC disclosures have contributed. The Department of Justice Canada provides legal advice on policy issues and to police forces. In cases where law enforcement agencies desire additional information from FINTRAC, the Department takes the application for a production order to court to obtain approval.	For 2006–07, PPSC opened 65 files with, among other charges, a charge of either money laundering or a charge under the PCMLTFA. These 65 files contained 124 charges of money laundering and 11 charges under the PCMLTFA, for a total of 135 charges. On top of all these files, Crown counsel worked on 131 carry-over files with, among other charges, a charge of either money laundering or a charge under the PCMLTFA. These files contained 9 charges under the PCMLTFA and 404 charges of money laundering, for a total of 413 charges. In addition, PPSC counsel obtained 2 production orders under s. 60 of the PCMLTFA.
4. CRA	(a) AML/ATF Regime	$29,284	$0	$0		

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[4] In the 2006–07 fiscal year, the Department of Justice Canada received additional funding, as identified in Budget 2006, of $1.104 million to bolster prosecutions capacity. Going forward, funding received by the Department of Justice Canada will be reported under the Department of Justice Canada and Public Prosecutions Services of Canada.

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
5. Citizenship and Immigration Canada	(a) AML/ATF Regime	$22,500	$0	$0		
6. CBSA	(a) AML/ATF Regime	$ 22,500	$4,500	$7,500[5]	CBSA Customs officers are responsible for the enforcement of the cross-border currency reporting program, which includes conducting searches, questioning individuals, and seizing non-reported or falsely reported currency and suspected proceeds of crime. In addition, FINTRAC discloses information to CBSA Immigration, which plays a key role in denying the use of Canadian territory to criminals and persons who pose security threats to Canada.	Since January 2003, CBSA has assumed new responsibilities for administering and enforcing Part 2 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA). Under this legislation, all imported or exported currency and/or monetary instruments valued at more than C$10,000 must be reported to the CBSA. During 2006–07, the CBSA participated in more than 2,000 seizures under the Act, totalling over $42 million. Approximately $6 million of this total was forfeited to the Crown.

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[5] In the 2006–07 fiscal year, CBSA received additional funding, as identified in Budget 2006, of $3.291 million to address existing operational pressures; the spending variance is mainly attributable to staffing delays.

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
7. CRA	(a) AML/ATF Regime	$11,000	$2,200	$2,174	FINTRAC discloses information to CRA when it suspects that the information would be relevant to an investigation and/or prosecution of money laundering or terrorist financing activities offences *and* if it determines that the information is relevant to a tax or duty evasion offence. The information received may serve as a lead for CRA to possibly initiate a new investigation or as additional information in an ongoing investigation.	CRA Special Enforcement Audits initiated based on FINTRAC disclosures provided by the police agencies to the CRA and Audits / Joint proceeds of crime/money laundering investigations with the integrated proceeds of crime units 2006–07 Actual FINTRAC-related audits completed: 42 cases 2006–07 referrals from RCMP/police agencies: 98 cases Total cases completed: 140 Actual revenue reassessed—FINTRAC-related: $ 9,162,492 Actual revenue reassessed—Referrals from RCMP/police agencies: $24,063,677 Total revenue reassessed: $33,226,169 Federal tax assessed on completed FINTRAC-related audits: $3,325,453 Federal tax assessed on

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
						referrals from RCMP/police agencies: $8,074,293 Total federal tax assessed: $11,399,746
8. RCMP	(a) AML/ATF Regime	$46,700	$4,900	$12,312[6]	The RCMP, through its money laundering units, is the major recipient of disclosures from FINTRAC. When intelligence is received, an investigative assessment is conducted to determine if a criminal investigation is warranted. The intelligence may add information on existing targets or provide new leads to existing investigations. The RCMP also provides voluntary information to FINTRAC to support its intelligence gathering process.	The money laundering units continue to receive intelligence from a number of sources, which include FINTRAC money-laundering disclosures, CBSA cross-border currency reporting information, as well as numerous other sources. The units also provide initiative training and awareness support via their money laundering training and outreach programs. In 2006–07, the intelligence received contributed to ongoing investigations, prompted the commencement of new investigations, and provided information for potential future use. This has contributed to Integrated

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[6] In the 2006–07 fiscal year, the RCMP received additional funding, as set out in Budget 2006, of $10.749 million to bolster existing investigative capacity. Actual spending in 2006–07 amounts to $7.805 million for the money laundering activities and $4.507 million for the terrorist financing activities.

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
						Proceeds of Crime (IPOC) opening new cases valued at approximately $21.6 million and the conclusion of cases valued at approximately $16.5 million. The Anti Terrorist Financing Team (ATFT) continues to receive intelligence from a number of domestic partners, including FINTRAC, CBSA, CRA, financial institutions, and intelligence agencies, as well as foreign law enforcement agencies. ATFT provides training on detecting terrorism financing to National Security investigators and partners with RCMP money laundering units to access and meet training requirements. ATFT also participates in Financial Action Task Force mutual evaluations and plenaries in the furtherance of this group's initiatives. As a result of new funding, ATFT created financial investigator positions in the integrated national

9. Federal Partners	10. Names of Programs for the Federal Partners	11. Total Allocation	12. Forecast Spending for 2006–07	13. Actual Spending in 2006–07	14. Planned Results for 2006–07	15. Results Achieved in 2006–07
						security enforcement teams located across the country to use the intelligence received in the furtherance of terrorism financing investigations and disrupting the funding process.
		Total $349,669	**Total $34,400**	**Total $44,287**		

16. Comments on Variances:

In the 2006–07 fiscal year, Budget 2006 announced new funding for the Horizontal Initiative. While the new resources were not received until late 2006, these new resources account for the variance between the forecast spending and actual spending during the fiscal year.

CRA: The variance represents approximately 2% of the total amount awarded ($55,000) and is due to a reduced usage of FTEs (mostly due to some turnover). The expected results were, however, achievement.

RCMP: New resources were received in November 2006; however, staffing of most of the new positions was not achieved until the end of the fiscal year and the beginning of the new fiscal year.

17. Results Achieved by Non-federal Partners: N/A

18. Contact Information: Lynn Hemmings Chief, Financial Crimes Section, Domestic Department of Finance Canada 613-992-0553	**19. Approved by:** Diane Lafleur Director, Financial Sector Division Department of Finance Canada 613-992-5885	**20. Date Approved:** September 2007

Table 12: Department of Finance Canada Financial Statements (unaudited) for the year ended March 31, 2007

Statement of Management Responsibility for Financial Statements

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2007, and all information contained in this report rests with departmental management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Department's financial transactions. Financial information submitted to the Public Accounts of Canada and included in the Department's DPR is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded, and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within parliamentary authorities, and are properly recorded to maintain accountability of government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff, through organizational arrangements that provide appropriate divisions of responsibility, and through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Department.

The system of internal control is augmented by Internal Audit, which conducts periodic audits and reviews of different areas of the Department's operations. In addition, the Chief Audit Executive has free access to the Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Deputy Minister of Finance.

The financial statements of the Department have not been audited.

Rob Wright, Deputy Minister
Ottawa, Canada
August 28, 2007

Coleen Volk, Senior Financial Officer
Ottawa, Canada
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Department of Finance Canada
Statements of Operations (*unaudited*)
For the year ended March 31
($ thousands)

	2007	2006
Expenses (note 4)		
Transfer Payments to Provinces and Territories	41,674,221	40,175,192
Public Debt	34,108,504	33,535,120
International Financial Organizations (recovery)	190,802	(409,967)
Domestic Coinage	128,035	125,729
Financial Sector Policy	65,511	17,009
Tax Policy	36,781	33,830
International Trade and Finance	17,956	16,103
Federal-Provincial Relations and Social Policy	17,719	15,522
Economic and Fiscal Policy	17,325	16,121
Economic Development and Corporate Finance	9,309	8,448
Total Expenses	76,266,163	73,533,107
Revenues (note 5)		
Transfer Payments to Provinces and Territories	205,063	209,105
International Financial Organizations	36,768	613,691
Domestic Coinage	226,843	212,943
Financial Sector Policy	4,141,384	3,391,196
Economic Development and Corporate Finance	158,070	201,126
Total revenues	4,768,128	4,628,061
Net cost of operations	71,498,035	68,905,046

The accompanying notes form an integral part of these financial statements.

Department of Finance Canada
Statements of Financial Position (*unaudited*)
As at March 31
($ thousands)

	2007	2006
Assets		
Financial assets		
Accounts receivable (Note 6)	6,777,102	7,876,767
Coin inventory	21,829	14,262
Foreign exchange accounts (Note 7)	44,178,099	40,826,522
Investment in Crown corporations (Note 8)	401,578	401,578
Other loans, investments, and advances (Note 9)	5,052,538	5,262,273
	56,431,146	54,381,402
Non-financial assets		
Tangible capital assets (Note 10)	3,548	3,770
Total assets	56,434,694	54,385,172
Liabilities		
Accounts payable and accrued liabilities (Note 11)	4,056,295	4,683,538
Taxes payable under tax collection agreements (Note 12)	6,422,333	6,012,377
Interest payable (Note 13)	7,407,283	7,748,715
Notes payable to international organizations (Note 14)	359,761	367,052
Matured debt (Note 15)	108,961	126,175
Unmatured debt (Note 16)	411,548,404	418,912,371
Other liabilities (Note 17)	124,839	208,412
Employee severance benefits (Note 18)	13,604	12,995
Total Liabilities	430,041,480	438,071,635
Equity of Canada (Note 19)	(373,606,786)	(383,686,463)
Total liabilities and equity of Canada	56,434,694	54,385,172
Contingent liabilities (Note 20)		
Contractual obligations (Note 21)		

The accompanying notes form an integral part of these financial statements

Department of Finance Canada
Statements of Equity of Canada (*unaudited*)
For the year ended March 31
($ thousands)

	2007	2006
Equity of Canada, beginning of year	**(393,139,722)**	**(395,958,378)**
Net cost of operations	(68,905,046)	(70,444,533)
Current year appropriations used (Note 3)	79,834,200	73,241,234
Revenue not available for spending	(5,173,025)	(6,835,610)
Change in net position in the Consolidated Revenue Fund (Note 3)	3,680,289	6,839,611
Services provided without charge by other government departments (Note 22)	16,841	17,954
Equity of Canada, end of year	**(373,606,786)**	**(383,686,463)**

The accompanying notes form an integral part of these financial statements.

Department of Finance Canada
Statements of Cash Flow (*unaudited*)
For the year ended March 31
($ thousands)

	2007	2006
Operating activities		
Net cost of operations	71,498,035	68,905,046
Non-cash items:		
Amortization of tangible capital assets	(1,472)	(1,488)
Amortization of loan discounts	207,031	210,600
Amortization of debt discounts and premiums	(6,153,043)	(5,289,353)
Concessionary portion of other loans, investments, and advances	(241,856)	(245,640)
Gain on disposition of securities	1,715	1,740
Gain on disposal of tangible capital assets	8	-
Unrealized foreign exchange gains and losses	(4,658)	(793,466)
Realized foreign exchange gains and losses	-	1,000,000
Services provided without charge	(18,774)	(16,841)
Variations in assets and liabilities:		
(Decrease) increase in accounts receivable	(1,099,665)	3,496,740
Increase in coin inventory	7,567	2,082
Decrease in accounts payable and accrued liabilities	626,634	2,000,088
Accounts payable and accrued liabilities	626,923	2,000,053
Vacation pay and compensatory leave	320	1,101
Employee severance benefits	(609)	(1,066)
Decrease in interest payable	341,432	201,524
Increase in taxes payable under tax collection agreements	(409,956)	(2,316,393)
Decrease (increase) in other liabilities	83,573	(86,551)
Cash used in operating activities	64,836,571	67,068,088
Capital investment activities		
Acquisition of tangible capital assets	1,808	3,172
Proceeds from disposal of tangible capital assets	(566)	(5)
Cash used by capital investment activities	1,242	3,167
Investing activities		
Net advances to (settlements from) the Exchange Fund Account	2,469,709	3,638,475
Issuance of notes payable to the International Monetary Fund	(1,680,585)	(2,645,000)
Encashment of notes payable to the International Monetary Fund	1,267,000	587,000
Payment of subscriptions to international financial institutions	-	6,043
Issuance of loans receivable	1,375,401	1,586,545
Repayment of loans receivable	(1,554,892)	(1,699,985)
Cash used by investing activities	1,876,633	1,473,078

	2007	2006
Financing activities		
Encashment of notes payable to international organizations	324,768	248,898
Issuance of note payable to international organizations	(318,270)	(318,270)
Net proceeds from cross-currency swaps	(183,919)	102,487
Issuance of debt	(355,819,562)	(359,223,747)
Repayment of debt	370,841,475	368,987,763
Net cash provided by the Government of Canada	(81,558,938)	(78,341,464)
Cash used in (provided by) financing activities	(66,714,446)	(68,544,333)

The accompanying Notes form an integral part of these financial statements.

1. Authority and objectives

The Department of Finance Canada is established under the *Financial Administration Act* as a department of the Government of Canada.

The Department is headed by the Minister of Finance who has broad responsibility for the management and direction of the Department, the management of the Consolidated Revenue Fund (CRF), and the supervision, control, and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other minister.

The goal of the Department of Finance Canada is to foster strong and sustainable economic growth, resulting in higher standards of living and an improved quality of life for Canadians. The core business of the Department is organized into the following program activities:

Transfer Payments to Provinces and Territories: Administers the transfer payments pursuant to statutes and agreements with provinces and territories.

Public Debt: Manages the funding of interest and service costs of the public debt and the issuing costs of new borrowing.

Domestic Coinage: Responsible for the payment of the production and distribution costs for domestic circulating coinage.

International Financial Organizations: Administers international financial obligations and subscriptions.

Tax Policy: Develops and evaluates federal taxation policies and legislation, and provides advice and recommendations for changes aimed at improving the tax system while raising the required amount of revenue to finance government priorities. This program focusses on the following areas: personal income tax, business income tax, and sales and excise tax. The program is also involved with negotiating tax treaties, tax policy research and evaluation, as well as federal-provincial-territorial and federal-Aboriginal tax coordination.

Financial Sector Policy: Provides policy analysis on Canada's financial sector and on the regulation of federally chartered financial institutions; manages the federal government's borrowing program; and provides support regarding Crown corporation and financial market and exchange rate policy.

Economic and Fiscal Policy: Analyzes Canada's economic and fiscal situation, advises on fiscal matters, and provides analytical support on a wide range of economic and financial issues related to the government's macroeconomic policies.

International Trade and Finance: Manages the Department of Finance Canada's participation in international financial institutions (including the IMF, the World Bank Group, the Organisation for Economic Co-operation and Development, and the European Bank for Reconstruction and Development), international groups such as the G7, G20, and the Asia–Pacific Economic Cooperation forum, as well as trade and investment policy issues.

Federal-Provincial Relations and Social Policy: Provides policy and advice on federal-provincial-territorial relations and social policy issues and their economic and fiscal implications.

Economic Development and Corporate Finance: Provides policy and advice regarding financial implications of the government's microeconomic policies and programs, proposals for funding of programs, sectoral policy analysis, and corporate restructuring regarding Crown corporations and other corporate holdings.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with accounting standards issued by the Treasury Board of Canada Secretariat, which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

a) Parliamentary appropriations

The Department is financed by the Government of Canada through parliamentary appropriations. Appropriations provided to the Department do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and in the Statement of Financial Position are not necessarily the same as those provided through appropriations from Parliament. Note 3 to these financial statements provides a high-level reconciliation between the two bases of reporting.

b) Consolidation

These financial statements include the accounts of Canada Investment and Savings, a special operating agency that administers retail debt. The accounts of Canada Investment and Savings have been consolidated with those of the Department of Finance Canada and all interorganizational balances and transactions have been eliminated.

The Government of Canada announced the winding up of Canada Investment and Savings as of the end of the fiscal year, March 31, 2007.

Investments in government business enterprises are recorded at cost and are not consolidated.

c) Net cash provided by the Government of Canada

The Department of Finance Canada operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF and all cash disbursements made by the Department are paid from the CRF. Net cash provided by the Government of Canada is the difference between all cash receipts and all cash disbursements, including transactions between departments of the Government of Canada.

d) Change in net position in the CRF

Change in net position in the CRF is the difference between net cash provided by the government and appropriations used in a year, excluding the amount of non-respendable revenue recorded by the Department. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

e) Special drawing rights and foreign currency transactions

A special drawing right (SDR) is an international reserve asset created by the IMF to supplement existing official international reserves of member countries. The value of a SDR is based on a basket of four major currencies: the euro, Japanese yen, pound sterling, and United States (U.S.) dollar. The composition of the basket is reviewed every five years to ensure that it is representative of the currencies used in international transactions and that the weights assigned to the currencies reflect their relative importance in the world's trading and financial systems.

Transactions involving foreign currencies and SDRs are translated into Canadian-dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in foreign currencies, and SDRs are translated into Canadian dollars at the exchange rate in effect at the balance sheet date.

Net losses resulting from foreign currency transactions are included in expenses—International Financial Organizations—in the statement of operations.

f) Revenues

Revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues:

- Interest on Receiver General bank deposits is recognized as revenue when earned.
- Uncashed Receiver General cheques and warrants and bank account cheques for all departments and agencies are recognized as revenue of the Department of Finance Canada if they remain outstanding 10 years after the date of issue.
- Unclaimed matured bonds are recognized as revenue if they remain unredeemed 15 years after the date of call or maturity, whichever is earlier.
- Unclaimed bank balances are recognized as revenue when there has been no owner activity in relation to the balance for a period of 20 years.

g) Expenses

Expenses are recorded on the accrual basis:

- Transfer payments are recorded as expenses when the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement or, in the case of transactions that do not form part of an existing program, when the government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.

- Public debt charges are recognized when incurred and include interest, amortization of debt discounts, premiums and commissions, and servicing and issue costs.
- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, the employer's contributions to health and dental insurance plans, and legal services are recorded as operating expenses at their estimated cost.

h) Employee future benefits

Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer defined benefit pension plan administered by the Government of Canada. The Department's contributions to the Plan are expensed as incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the Plan.

Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government of Canada as a whole.

i) Accounts receivable

Accounts receivable are stated at the amounts expected to be ultimately realized. A provision is made for accounts receivable where the ultimate recovery is considered uncertain.

j) Inventory

Coin inventory is valued at the lower of cost and net realizable value, cost being determined by the average cost method.

k) Foreign exchange accounts

Short-term deposits, marketable securities, and special drawing rights held in the Foreign Exchange Accounts are recorded at cost. Marketable securities are adjusted for amortization of purchase discounts and premiums. Purchases and sales of securities are recorded at the settlement date. Write-downs to reflect other than temporary impairment in the fair value of securities are included in foreign exchange revenues on the Statement of Operations and Accumulated Deficit. Canada's subscriptions to the capital of the International Monetary Fund are recorded at cost.

l) Investments in Crown corporations

Investments in the Canada Development Investment Corporation are at cost.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

Income from investments in Crown corporations includes dividends from the Bank of Canada and the Canada Development Investment Corporation, which is recognized when declared.

m) Other loans, investments, and advances

Subscriptions and contributions are recorded at cost net of allowances.

The Department of Finance Canada does not make a return on investment and does not expect a return of capital unless it withdraws from an institution, which is unlikely. Since the terms of the subscriptions and contributions are so concessionary that the substance of the transaction is that all or a part of the investment is more in the nature of a grant, the entire investment is recognized, through an allowance, as an expense at the time the investment is made.

Loans and advances are initially recorded at cost and are adjusted to reflect the concessionary terms of those loans made on a long-term, low interest, or interest-free basis and the portion of the loans that are expected to be repaid from future appropriations.

An allowance for valuation is further used to reduce the carrying value of loans, investments, and advances to amounts that approximate their net realizable value.

For loans to national governments, including developing countries, the allowance is determined based on the government's identification and evaluation of countries that have formally applied for debt service relief, on estimated probable losses that exist on the remaining portfolio, and on changes in the economic conditions of sovereign debtors.

For loans and advances to international organizations, an allowance is established based on their concessionary terms and their collectibility.

n) Derivative financial instruments

The Department of Finance Canada enters into interest rate and cross-currency swaps to facilitate the management of its debt structure.

Interest rate swaps are agreements where counterparties exchange fixed- and floating-rate interest payments based on notional principal amounts of a single currency. Cross-currency swaps are agreements where counterparties exchange fixed- or floating-rate interest payments and principal amounts in different currencies.

Interest rate swaps are used to convert fixed-rate debt into variable rates tied to the Banker's Acceptance rates or London Interbank Offered Rates. Cross-currency swaps are primarily used to convert domestic debt to foreign debt to fund foreign currency advances to the Exchange Fund Account. In certain cases, cross-currency swaps are used to convert foreign debt into U.S. dollar debt.

Cross-currency swaps are initially recorded at cost and are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. For cross-currency swaps where domestic debt has been converted into foreign debt, any exchange gains or losses are offset by the exchange gains or losses on foreign currency advances to the Exchange Fund Account. For cross-currency swaps where foreign debt has been converted into U.S. dollar debt, any exchange gains or losses are offset by the exchange gains or losses on the applicable foreign debt.

Interest paid and payable, and interest received and receivable on all derivative financial instruments is included in interest on unmatured debt.

o) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of $10,000 or more are recorded at their acquisition cost. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization period
Machinery and equipment	3 to 5 years
Motor vehicles	3 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Assets under construction	Once in service, in accordance with asset class

p) Taxes receivable and taxes payable under tax collection agreements

Pursuant to various tax collection agreements, the Canada Revenue Agency administers and collects personal income taxes, corporate income taxes, Harmonized Sales Tax, First Nations Sales Tax, and First Nations Goods and Services Tax on behalf of certain provincial, territorial, and Aboriginal governments and the Department of Finance Canada remits those taxes to the applicable government.

Taxes receivable include taxes collectible by the Canada Revenue Agency on behalf of provincial, territorial, or Aboriginal governments that have not yet been remitted to the Department and are included in Accounts Receivable in the Statement of Financial Position. Taxes payable include taxes that have not yet been remitted by the Department to the applicable provincial, territorial, or Aboriginal government.

Taxes receivable and taxes payable include amounts assessed by the Canada Revenue Agency and estimates of amounts not assessed based on cash received, and include adjustments between estimated taxes receivable and taxes payable from previous years and actual amounts, as well as adjustments from reassessments.

q) Unmatured debt

Premiums and discounts on public debt are amortized on a straight line basis over the term to maturity of the respective debt instrument. The corresponding amortization is recorded as part of public debt charges.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

r) Other liabilities

Deposits from Crown corporations that are non-interest bearing and repayable are recorded in "Other liabilities."

The common school funds account was established under *12 Victoria 1849*, Chapter 200, to record the proceeds from the sale of lands set apart for the support and maintenance of common schools in Upper and Lower Canada, now Ontario and Quebec.

The foreign claims fund account was established by Vote 22a, *Appropriation Act No. 9, 1966* to record the money received from the Custodian of Enemy Property.

The War Claims Fund—World War II account was established by Vote 696, *Appropriation Act No. 4, 1952* to record moneys received from the Custodian of Enemy Property or from other sources.

s) Loan guarantees

The allowance for losses on the guarantees of the Canadian Wheat Board and Export Development Canada is determined based on the government's identification and evaluation of countries that have formally applied for debt relief, estimated probable losses that exist on the remaining portfolio, and changes in the economic conditions of sovereign debtors.

t) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense is recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the Notes to the financial statements.

u) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses reported in the Financial Statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable.

The most significant items where estimates are used are contingent liabilities, valuation allowances for loans receivable, discounts on loans receivable, transfer payments to provinces and territories, the liability for employee severance benefits and accruals of taxes receivable, and taxes payable under tax collection agreements. Actual results could differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary Appropriations

The Department receives most of its funding through annual parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through parliamentary appropriations in prior, current, or future years. Accordingly, the Department has different net results of operations for the year on a government-funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to appropriations used:

	2007	2006
	($ thousands)	
Net cost of operations	71,498,035	68,905,046
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Revenue not available for spending	4,844,881	5,173,025
Allowance set-up (reversal) for bad debt expenses	76,414	(5,899)
Services provided without charge	(18,774)	(16,841)
Inventory charged to program expense	7,567	2,082
Amortization of tangible capital assets	(1,472)	(1,488)
Employee severance benefits	(609)	(1,066)
Adjustment of allowance on loan guarantees	372,463	1,349,527
Adjustment of allowance	—	3,960
Other expenses not being charged to appropriations:		
Transfer payment pursuant to the *Budget Implementation Act, 2007*	(3,233,000)	—
Transfer payment pursuant to the *Budget Implementation Act, 2006*		3,985,500-
Other	(785)	2,926
	2,046,685	10,491,726
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Issuance of Notes payable for subscriptions and contributions to the International Development Association	318,270	318,270
Issuance of loans to the International Monetary Fund's Poverty Reduction and Growth Facility	—	89,956
Encashment of notes payable to the European Bank for Reconstruction and Development	6,498	15,106
Issuance of notes payable for subscriptions to the European Bank for Reconstruction and Development	—	9,157
Advances to the Financial Consumer Agency of Canada	5,000	4,500
Acquisitions of tangible capital assets	883	460
Accountable advances	(26)	(21)
	330,625	437,428
Current year appropriations used	73,875,345	79,834,200

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

b) Appropriations provided and used:

	2007	2006
	($ thousands)	
Appropriations provided:		
Vote 1—Operating expenditures	102,606	92,332
Vote 5—Grants and contributions	398,605	995,200
Vote 10—Transfer payments to territorial governments	—	1,800,000
	501,211	2,887,532
Statutory authorities:		
Transfer payments to provinces and territories	38,441,221	44,160,692
Public debt charges	34,108,504	33,535,120
Issuance of notes payable for subscriptions and contributions to the International Development Association	318,270	318,270
Encashment of notes payable to the International Development Association	318,270	239,741
Purchases of coins	135,602	127,811
Foreign exchange losses	120,555	542,320
Contributions to employee benefit plans	11,761	12,445
Issuance of notes payable for subscriptions to the European Bank for Reconstruction and Development	—	9,157
Advances to the Financial Consumer Agency of Canada	5,000	4,500
Transfer payments to international organizations	2,615	29,293
Other statutory authorities	2,166	1,690
Issuance of loans to the International Monetary Fund's Poverty Reduction and Growth Facility	—	89,956
Encashment of notes payable to the European Bank for Reconstruction and Development	6,498	15,106
	73,470,462	79,086,101
Lapsed appropriations:		
Vote 1—Operating expenditures	(13,320)	(8,880)
Vote 5—Grants and contributions	(83,008)	(330,553)
Vote 10—Transfer payments to territorial governments	—	(1,800,000)
Vote 15—Transfer payments to territorial governments	—	—
	(96,328)	(2,139,433)
Current year appropriations used	73,875,345	79,834,200

c) Reconciliation of net cash provided by government to current year appropriations used:

	2007	2006
	($ thousands)	
Net cash provided by government	81,558,938	78,341,464
Revenue not available for spending	4,844,881	5,173,025
Change in net position in the Consolidated Revenue Fund:		
Variation in assets and liabilities:		
Unmatured debt	(7,363,967)	(6,456,404)
Foreign exchange accounts	(3,351,577)	44,496
Accounts receivable	1,099,665	(3,496,740)
Accounts payable and accrued liabilities	(626,634)	(2,000,088)
Taxes payable under tax collection agreements	409,956	2,316,393
Interest payable	(341,432)	(201,524)
Other loans, investments, and advances	209,735	208,536
Matured debt	(17,214)	(27,510)
Coin inventory	(7,567)	(2,082)
Notes payable to international organizations	(7,291)	76,792
Tangible capital assets	222	(1,679)
Other liabilities	(83,573)	86,551
Other adjustments:		
Issuance of notes payable for subscriptions to the International Developments Association	318,270	318,270
Allowance set-up (reversal) for bad debt expenses	76,414	(5,899)
Issuance of loans to the IMF's Poverty Reduction Growth Facility	—	89,956
Allowance reversal for loan guarantees	372,463	1,349,527
Other expenses not being charged to appropriation at the same time:		
Transfer payment pursuant to the *Budget Implementation Act, 2007*	(3,233,000)	—
Transfer payment pursuant to the *Budget Implementation Act, 2006*		3,985,500
Other adjustments	17,056	35,616
Total change in the Consolidated Revenue Fund	12,528,474	3,680,289
Current year appropriations used	73,875,345	79,834,200

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

4. Expenses

The following table presents expense details by category:

	2007	2006
	($ thousands)	
Transfer payments:		
Provinces and territories (Note 4a)	41,674,221	40,175,192
International organizations (Note 4b)	560,069	939,560
Allowance on loan guarantees	(372,463)	(1,349,527)
Non-profit institutions and organizations	—	20
Total transfer payments	41,861,827	39,765,245
Public debt charges:		
Interest on unmatured debt (Note 4c)	21,182,870	21,130,905
Interest on other liabilities (Note 4d)	12,831,346	12,303,426
Other public debt charges	94,288	100,789
Total public debt charges	34,108,504	33,535,120
Cost of domestic coinage sold	128,035	125,729
Operating expenses (Note 4e)	121,483	110,953
Net foreign currency loss	46,112	—
Other expenses	202	20
Bad debt allowance (recovered)	—	(3,960)
Total Expenses	76,266,163	73,533,107

a) Transfer payments to provinces and territories

Transfer payments to provinces and territories are paid pursuant to the *Federal-Provincial Fiscal Relations Act*, *Budget Implementation Acts*, and other statutory authorities.

For the year ended March 31, transfer payments to provinces and territories included the following:

	2007	2006
	($ thousands)	
Fiscal equalization payments	11,535,064	10,917,000
Territorial financing	2,118,264	2,029,000
Canada Health Transfer	20,139,876	19,000,000
Canada Social Transfer	8,500,000	8,225,000
Clean Air and Climate Change Trust Fund	1,519,000	—
Transitional Trust Fund	614,100	—
Patient Wait Time Guarantee Trust Fund	612,000	—
Payment to Northwest Territories	54,400	—
Payment to Ontario	400,000	—
British Columbia Spirit Bear Rainforest	30,000	—
Payment to Yukon	3,500	—
Alternative payments for standing programs	(3,177,016)	(2,731,180)
Youth Allowances Recovery	(706,788)	(596,447)
Statutory subsidies	31,821	31,819
Bill C-48 (*An Act to authorize the Minister of Finance to make certain payments*)		
Public Transit Capital Trust	—	900,000
Post-secondary Education Infrastructure Trust	—	1,000,000
Affordable Housing Trust	—	1,400,000
Total Transfer payments to provinces and territories	41,674,221	40,175,192

b) Transfer payments to international organizations

Transfer payments to international organizations consists of:

- subscriptions and contributions to the International Development Association;
- contributions to the International Monetary Fund's Poverty Reduction Growth Facility; and
- grants and contributions to compensate Canadian creditor agencies whose scheduled receipts from debtor countries have been reduced by Canadian participation in the Paris Club debt or debt service reduction agreements and to contribute to international efforts to relieve the debt burdens of the world's poorest countries.

c) Interest on unmatured debt

Interest on unmatured debt includes interest incurred, amortization of debt discounts, and premiums and net interest on cross-currency and interest rate swaps.

	2007	2006
	($ thousands)	
Interest on domestic debt:		
Treasury bills	4,691,568	3,443,821
Marketable bonds	15,031,258	16,132,630
Retail debt	719,613	651,554
Non-marketable bonds	214,531	322,831
Promissory notes	205	824
	20,657,175	20,551,660
Interest on foreign debt:		
Marketable bonds (U.S. and euro)	337,743	417,008
Canada notes (yen)	9,267	13,182
Canada bills (U.S.)	105,711	80,074
Euro medium-term notes (U.S. and euro)	72,974	68,981
	525,695	579,245
Total Interest on unmatured debt	21,182,870	21,130,905

d) Interest on other liabilities

The Department funds interest on interest-bearing specified purpose accounts established by all departments and agencies, including superannuation accounts and Retirement Compensation Arrangement accounts established for the benefit of public service employees and members of the Royal Canadian Mounted Police and the Canadian Forces, the CPP Account, the Employment Insurance Fund, and other accounts.

Interest on other liabilities includes interest incurred on specified purpose accounts and interest on special drawing rights allocations.

For the year ended March 31, interest on other liabilities included interest on:

	2007	2006
	($ thousands)	
Superannuation accounts	10,446,077	10,500,352
Employment Insurance fund	1,912,249	1,323,562
Other specified purpose accounts	296,846	307,206
Retirement Compensation Arrangement accounts	115,416	113,160
Special drawing rights allocations	51,758	37,994
CPP account	9,000	21,152
Total Interest on other liabilities	12,831,346	12,303,426

e) Operating expenses

	2007	2006
	($ thousands)	
Salaries and wages	70,817	66,431
Contributions to employee benefit plans (Note 18)	11,761	12,446
Professional and special services	14,813	13,135
Accommodation	9,718	9,762
Transportation and telecommunications	4,972	5,079
Machinery and equipment	3,081	615
Amortization of tangible capital assets	1,472	1,488
Information services	3,747	920
Repairs and maintenance	542	598
Rentals	560	479
Total Operating expenses	121,483	110,953

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

5. Revenues

	2007	2006
	($ thousands)	
Investment income:		
Dividends from the Bank of Canada	1,983,529	1,735,610
Dividends from Canada Development Investment Corporation	156,000	199,000
Exchange Fund Account	1,765,275	1,394,534
Interest on Subscriptions to the International Monetary Fund (IMF)	22,753	49,896
Loan interest	219,243	227,105
Total investment income	4,146,800	3,606,145
Net foreign currency gain	—	545,999
Sales of domestic coinage	226,843	212,942
Interest on bank deposits	351,230	212,138
Other revenue	41,182	48,711
Loan interest—Canada Lands Company Ltd.	2,073	2,126
Total revenues	4,768,128	4,628,061

6. Accounts receivable

The following table presents details of accounts receivable:

	2007	2006
	($ thousands)	
Accounts receivable—external	46	67
Accounts receivable—other government departments and agencies	27,012	20,725
Accrued investment income	400,266	384,733
Deposits in transit to the Receiver General	4	373
Taxes receivable under tax collection agreements	6,349,774	7,470,869
Total Accounts Receivable	6,777,102	7,876,767

7. Foreign exchange accounts

The foreign exchange accounts represent the largest component of the official international reserves of the Government of Canada and consist of the following:

	2007	2006
	($ thousands)	
Investments held in Exchange Fund Account	42,907,495	39,202,354
Accrued net revenue from Exchange Fund Account	1,765,245	1,733,853
Total investments held in Exchange Fund Account (Note 7a)	44,672,740	40,936,207
Subscriptions to the International Monetary Fund (Note 7b)	11,105,783	10,672,893
Notes payable to the International Monetary Fund (Note 7c)	(10,241,599)	(9,471,102)
Special drawing rights allocations (Note 7d)	(1,358,825)	(1,311,476)
Total Foreign Exchange Accounts	44,178,099	40,826,522
Market Value	44,058,945	40,765,334

a) Exchange Fund Account

The Exchange Fund Account is an actively managed portfolio of liquid foreign currency assets maintained to provide foreign currency liquidity for the Government of Canada and to provide the funds needed to help promote orderly conditions for the Canadian dollar in foreign exchange markets. It is governed by Part II of the *Currency Act*. Assets include cash and short-term deposits, marketable securities, special drawing rights, and gold.

The advances are limited to $60 billion by Order in Council dated April 25, 2001. Foreign currency is funded by the proceeds of foreign debt issued and domestic debt converted to foreign debt through cross-currency swaps.

The following table presents the balances of the foreign exchange accounts:

	2007	2006
	($ thousands)	
Cash and short-term deposits	1,925,167	4,238,533
Deposits held under repurchase agreements	2,540,120	2,277,600
Marketable securities	38,462,632	32,855,313
Special drawing rights	1,126,655	1,064,960
Gold	6,653	6,421
Accrued interest and other receivables	611,513	493,380
Total Investments held in Exchange Fund Account	44,672,740	40,936,207

b) Subscriptions to the International Monetary Fund (IMF)

The International Monetary Fund (IMF) is an international organization of 184 member countries that operates in accordance with its Articles of Agreement. It has a large pool of liquid assets, or resources, comprising convertible national currencies, special drawing rights, and other widely used international currencies provided by its members that it makes available to help members finance temporary balance of payments problems.

Upon joining the IMF and following periodic quota reviews, member countries are assigned a quota, based broadly on their relative size in the world economy.

Quotas are denominated in special drawing rights and determine a country's subscription, voting power, access to financing from the IMF, and share of special drawing rights (SDRs) allocations. The subscription is equal to the quota and is payable in full to the IMF. Up to one quarter of the subscription is paid in the form of widely accepted foreign currencies (such as the U.S. dollar, the euro, the Japanese yen, or the pound sterling) or SDRs. The remaining three quarters is paid in the country's own currency.

c) Notes payable to the International Monetary Fund

At least 25 per cent of Canada's quota is held by the IMF in a Canadian-dollar cash deposit at the Bank of Canada. The IMF's remaining Canadian-dollar holdings are in the form of non-negotiable, non-interest-bearing demand notes that are cashed by the IMF subject to its requirements for Canadian currency.

d) Special drawing rights allocations

The IMF allocates SDRs to countries that participate in the IMF's Special Drawing Rights Department.

SDR allocations are repayable to the IMF if they are cancelled by the IMF's Board of Governors, the Special Drawing Rights Department is liquidated, the IMF is liquidated, or if Canada chooses to withdraw from the IMF or terminate its participation in the Special Drawing Rights Department.

Canada's SDR allocations are SDR779.3 million.

8. Investment in Crown corporations

Finance Canada wholly owns two Crown corporations: the Bank of Canada and the Canada Development Investment Corporation.

At March 31, the investment, at cost, is as follows:

	2007	2006
	($ thousands)	
Bank of Canada (note 8a)	5,920	5,920
Canada Development Investment Corporation (note 8b)	395,658	395,658
Total Investment in Crown corporations	401,578	401,578

a) Bank of Canada

The Bank of Canada is a wholly-owned Crown corporation established by the *Bank of Canada Act* as the central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation; to control and protect the external value of the national monetary unit; to mitigate by its influence fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action; and to generally promote the economic and financial welfare of Canada.

The Bank of Canada has responsibilities for Canada's monetary policy, bank notes, financial system, funds management, and retail debt and, pursuant to the *Bank of Canada Act*, is the fiscal agent of the Government of Canada.

The Department of Finance Canada owns 100,000 shares with a par value of $50 each.
The remaining balance of $920,000 represents premiums paid in respect of the acquisition, in 1938, of shares held by the public.

b) Canada Development Investment Corporation

The Canada Development Investment Corporation is a wholly-owned Crown corporation incorporated pursuant to the *Canada Business Corporations Act*. The Corporation's current mandate is to wind down its operations by divesting of its remaining assets in an orderly fashion and to ready the corporation for eventual wind up. The Corporation wholly owns Canada Eldor Inc. and the Canada Hibernia Holding Corporation.

The Department of Finance Canada owns 101 common shares with nominal value.
The remaining balance of the investment represents the Department's contributed surplus of the Canada Hibernia Holding Corporation.

c) CPPIB

The Corporation was incorporated under the CPPIB Act, S.C., 1997, C.40, to invest the assets of the CPP in order to meet the obligation to contributors and beneficiaries under the CPP.

The Department of Finance Canada has purchased 10 shares of the Corporation at $10 per share, which represents 100 per cent of the outstanding shares.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

9. Other loans, investments, and advances

Other loans, investments, and advances by category are as follows:

	Face value	Discounts	Allowance	Net book value 2007	Net book value 2006
			($ thousands)		
Government business enterprises					
Notes receivable from Canada Lands Company CLC Limited (Note 9a)	63,604	(16,210)	—	47,394	38,864
Note receivable from Parc Downsview Park Inc.	19,000	(17,304)	—	1,696	1,604
	82,604	(33,514)	—	49,090	40,468
Provincial and territorial governments					
Recoverable overpayments of transfer payments (Note 9b)	4,514,185	(681,010)	—	3,833,175	4,023,328
Recoverable overpayments of taxes payable under tax collection agreements (Note 9c)	994,639	(190,329)	—	804,310	896,125
Loans to Municipal Development Loan Boards (Note 9d)	648	—	—	648	1,809
Loans for the Winter Capital Projects Fund (Note 9e)	2,900	—	(2,900)		—
	5,512,372	(871,339)	(2,900)	4,638,133	4,921,262
International organizations					
Subscriptions to the European Bank for Reconstruction and Development (Note 9f)		249,622	—	(249,622)	—
Subscriptions to the International Bank of Reconstruction and Development (Note 9g)	385,453	—	(385,453)	—	—
Subscriptions to the International Finance Corporation (Note 9h)	93,917	—	(93,917)	—	—
Subscriptions to the Multilateral Investment Guarantee Agency (Note 9i)	12,391	—	(12,391)	—	—
Loans to the International Monetary Fund's Poverty Reduction and Growth Facility (Note 9j)	365,315	—	—	365,315	300,543
Advances to the Global Environment Facility (Note 9k)	10,000	—	(10,000)	—	—
Subscriptions and contributions to the International Development	7,493,378	—	(7,493,378)	—	—

	Face value	Discounts	Allowance	Net book value 2007	Net book value 2006
Association (Note 9l)					
	8,610,076	—	(8,244,761)	365,315	300,543
Other organizations					
Investment in loan portfolio acquired from the Canadian Commercial Bank (Note 9m)	43,132	—	(43,132)	—	—
	43,132	—	(43,132)	—	—
Total Other loans, investments, and advances	14,248,184	(904,853)	(8,290,793)	5,052,538	5,262,273

a) Canada Lands Company Ltd

Canada Lands Company Ltd. (CLC) was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. CLC has acquired an interest in a number of real properties from the government in consideration for the issuance of promissory notes, which bear no interest and are repayable from the proceeds of the sale of the properties in respect of which they were issued. The notes were discounted using the Consolidated Revenue Fund lending rate applicable to Crown corporations and recorded at their discounted value.

b) Recoverable overpayments of transfer payments

These amounts represent underpayments and overpayments in respect of provincial equalization entitlements under the *Constitution Act, 1867* and the *Constitution Act, 1982*, the *Federal-Provincial Fiscal Arrangements Act*, and other statutory authority. The underpayments are non-interest bearing and are paid in subsequent years.

c) Recoverable overpayments of taxes payable under tax collection agreements

These amounts represent overpayments made to provinces under tax collection agreements for the tax years 1997 to 1999 stemming from the misclassification of mutual fund trust capital gains refunds. Recoveries are non-interest bearing and will take place over a 10-year period, which started in 2004–05.

d) Municipal Development and Loan Board

Loans have been made to provinces and municipalities to augment or accelerate municipal capital works programs. The loans bear interest at rates from 5.25 per cent to 5.625 per cent per annum and are repayable in annual or semi-annual instalments over 15 to 50 years, with final instalments between April 1, 2007, and July 1, 2008.

e) Winter capital projects fund

Loans have been made to provinces, provincial agencies, and municipalities to assist in the creation of employment. The loans bear interest at rates from 7.4 per cent to 9.5 per cent per annum and are repayable either in annual instalments over 5 to 20 years, or at maturity. The loans are fully provisioned.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

f) European Bank for Reconstruction and Development

At year-end, Canada subscribed to 68,000 shares of the European Bank for Reconstruction and Development's authorized capital valued at U.S.$828.6 million. Only U.S.$216.2 million, or about 26 per cent of Canada's share subscription is "paid in." The balance is callable, meaning the institution can request the resources in the unlikely event that it requires them to meet its financial obligations to bondholders. Payments for the share subscription are authorized by the Act. Each payment to the EBRD is comprised of cash and a promissory note.

As at March 31, 2007, Canada had paid-in shares valued at U.S.$216,197,668 (U.S.$216,197,668 in 2006). Canada's contingent liability for the callable portion of its shares is U.S.$612,420,000.

g) International Bank for Reconstruction and Development (World Bank)

This account records Canada's subscriptions to the capital of the International Bank for Reconstruction and Development, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts.

As at March 31, 2007, Canada subscribed to 44,795 shares. The total value of these shares is U.S.$5,403.8 million, of which U.S.$319.6 million plus U.S.$16.4 million has been paid in. The remaining portion is callable. The callable portion is subject to call by the Bank under certain circumstances. Canada's contingent liability for the callable portion of its shares is U.S.$5,069 million.

h) International Finance Corporation

This account records Canada's subscriptions to the capital of the International Finance Corporation, which is part of the World Bank Group, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts.

As at March 31, 2007, Canada subscribed to 81,342 shares. These shares have a total value of U.S.$81.3 million, all of which has been paid in.

i) Multilateral Investment Guarantee Agency

This account records Canada's subscriptions to the capital of the Multilateral Investment Guarantee Agency, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts.

As at March 31, 2007, Canada subscribed to 5,225 shares. The total value of these shares is U.S.$56.5 million, of which U.S.$10.7 million is paid in and the remaining portion is callable. The callable portion is subject to call by the Agency under certain circumstances. Canada's contingent liability for the callable portion of its shares is U.S.$45.8 million.

j) International Monetary Fund—Poverty Reduction and Growth Facility

This account records the loan to the International Monetary Fund in order to provide assistance to debt-distressed, low-income countries, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The total loan authority pursuant to the *Bretton Woods and Related Agreements Act* was set at $550 million or such greater amount as may be fixed by the Governor in Council. The Governor in Council subsequently increased the limit to SDR700 million.

As at March 31, 2007, Canada had lent a total of SDR700,000,000 (SDR700,000,000 in 2006) to the Poverty Reduction and Growth Facility. Of this amount, SDR490,490,901 (SDR481,008,625 in 2006) has been repaid. The outstanding balance of SDR209,509,099 (SDR218,991,375 in 2006) was translated into Canadian dollars at the year-end closing rate of exchange (1 SDR = C$1.74367).

k) Global Environment Facility

This account records the funding of a facility for environmental funding in developing countries in the areas of ozone, climate change, biodiversity, and international waters, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. Advances to the Global Environment Facility (GEF) are made in non-negotiable, non-interest-bearing demand notes that are later encashed.

As at March 31, 2007, advances to the GEF amounted to C$10,000,000.

l) International Development Association

This account records Canada's contributions and subscriptions to the International Development Association (IDA), as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The contributions and subscriptions to the Association, which is part of the World Bank Group, are used to lend funds to the poorest developing countries for development purposes, on highly favourable terms (no interest, a 35- to 40-year maturity, and 10 years of grace). Contributions and subscriptions to IDA are made in non-negotiable, non-interest-bearing demand notes that are later encashed. During the year, transactions included participation through the issuance of notes payable.

As at March 31, 2007, Canada's total participation in IDA amounted to C$7,493.3 million (C$7,175.1 million in 2006).

m) Canadian Commercial Bank

Advances have been made to the Canadian Commercial Bank representing the government's participation in the support group as authorized by the *Canadian Commercial Bank Financial Assistance Act*. These funds represent the government's participation in the loan portfolio that was acquired from the Bank and the purchase of outstanding debentures from existing holders.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

n) Advances to the Financial Consumer Agency of Canada

Interest-bearing advances have been made to defray the cost of operation of the Agency pursuant to subsection 13(1) of the *Financial Consumer Agency of Canada Act*. During the year, the advances were repaid in full.

10. Tangible capital assets

	Opening balance	Acquisitions	Transfers-in	Disposals and write-offs	Closing balance
			($ thousands)		
Machinery and equipment	10,379	1,705	79	(837)	11,326
Motor vehicles	127	24	—	(50)	101
Leasehold improvements	1,150	—	—	(911)	239
Assets under construction	889	—	—	(495)	394
	12,545	1,729	79	(2,293)	12,060

	Accumulated Amortization				
	Opening balance	Amortization	Transfers	Disposals and write-offs	Closing balance
			($ thousands)		
Machinery and equipment	8,063	1,110	6	(973)	8,206
Motor vehicles	88	16	—	(37)	67
Leasehold improvements	624	346	—	(731)	239
Assets under construction	—	—	—	—	—
	8,775	1,472	(6)	(1,741)	8,512

	Net book value 2007	Net book value 2006
	($ thousands)	
Machinery and equipment	3,120	2,316
Motor vehicles	34	39
Leasehold improvements	—	526
Assets under construction	394	889
	3,548	3,770

The amortization expense for the year ended March 31, 2007, is $1,472 thousand ($1,488 thousand in 2006).

11. Accounts payable and accrued liabilities

	2007	2006
	($ thousands)	
Accounts payable—external	3,266,715	3,353,963
Allowance for guarantees (Note 20)	500,037	872,500
Accounts payable—other government departments and agencies	284,829	452,041
Accrued vacation pay	4,714	5,034
Total Accounts payable and accrued liabilities	4,056,295	4,683,538

12. Taxes payable under tax collection agreements

At March 31, 2007, taxes payable to provinces, territories, and Aboriginal governments in respect of taxes collectible under tax collection agreements is as follows:

	2007	2006
	($ thousands)	
Personal income taxes	3,392,512	3,908,207
Corporate income taxes	2,626,344	1,812,314
Harmonized Sales Tax	402,494	291,092
First Nations Sales Tax	613	423
First Nations Goods and Services Tax	370	341
Total Taxes payable under tax collection agreements	6,422,333	6,012,377

13. Interest payable

	2007	2006
	($ thousands)	
Retail debt	2,974,153	3,250,827
Domestic bonds	4,183,917	4,259,781
Foreign bonds	249,213	238,107
Total Interest payable	7,407,283	7,748,715

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

14. Notes payable to international organizations

Non-interest bearing demand notes are issued in lieu of cash in respect of subscriptions and contributions to international organizations. The notes are presented for encashment according to their terms of agreement.

At March 31, 2007, the amount outstanding is:

	2007	2006
	($ thousands)	
European Bank for Reconstruction and Development—USD (Note 9f)	10,097	17,023
International Bank of Reconstruction and Development—USD (Note 9g)	27,690	28,012
Multilateral Investment Guarantee Agency—USD (Note 9i)	3,704	3,747
International Development Association (Note 9l)	318,270	318,270
Total Notes payable to international organizations	359,761	367,052

15. Matured debt

Matured debt consists of debt that has matured but has not yet been redeemed. Matured debt that has not been redeemed fifteen years after the date of maturity or five years after the date of the call is recognized as revenue in the Statement of Operations.

At March 31, 2007, the amount outstanding is:

	2007	2006
	($ thousands)	
Treasury bills (matured from 1977 to 1996)	591	591
Marketable bonds (matured from 1992 to 2007)	17,049	17,514
Retail debt (matured from 1992 to 2007)	91,321	108,070
Total Matured debt	108,961	126,175

16. Unmatured Debt and Other Financial Instruments

i. Unmatured debt

The Department borrows in both domestic and international markets on behalf of the Government of Canada.

Domestic debt consists of Treasury bills, marketable bonds, retail debt, and non-marketable bonds issued to the CPPIB.

Foreign debt consists of marketable bonds issued in U.S. dollars and euro; Canada notes issued in Japanese yen; Canada bills issued in U.S. dollars; and euro medium-term notes issued in U.S. dollars, Japanese yen, and euro. Marketable bonds include bonds assumed by the Department on February 5, 2001, on the dissolution of Petro-Canada Limited. Marketable bonds issued in New Zealand dollars and euro medium-term notes issued in Japanese yen were converted into U.S.-dollar liabilities through cross-currency swaps.

The Treasury bills balance at March 31, 2007, consists of $16,200 million in odd issue bills, $36,800 million in three-month bills, $28,600 million in six-month bills, and $52,500 million in 364-day bills.

Canada Savings Bonds are redeemable on demand by the holder, with accrued interest calculated to the end of the previous month (no interest is paid if redeemed during the first three months following the date of issue).

Non-marketable bonds and notes are interest-bearing certificates of indebtedness issued by the Government of Canada exclusively to the CPP Investment Fund and are redeemable at face value plus accrued interest.

Canada bills are short-term certificates of indebtedness issued by the Government of Canada in the U.S. money market under the government's foreign currency borrowing program. Canada bills provide Canada with an additional source of short-term U.S. funds.

The year-end balance of Canada bills payable in U.S. dollars was translated into Canadian dollars using the closing rate of exchange at March 31, 2007.

Canada notes are issued by the Government of Canada under the government's foreign currency borrowing program. Canada notes provide Canada with an additional source of medium-term foreign funds. The year-end balances of Canada notes were translated into Canadian dollars using the closing rate of exchange of the appropriate currency at March 31, 2007.

Euro medium-term notes are issued by the Government of Canada in the euro markets under the government's foreign currency borrowing program and thus provide Canada with an additional source of medium-term foreign funds. The year-end balances of euro medium-term notes were translated into Canadian dollars using the closing rate of exchange of the appropriate currency at March 31, 2007.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

At March 31, the amount outstanding is:

	Face value	Unamortized discounts (premiums)	Net book value 2007	Net book value 2006
		($ thousands)		
Domestic debt:				
Treasury bills	134,100,000	(1,568,140)	132,531,860	130,230,290
Marketable bonds	257,909,160	(5,081,326)	252,827,834	256,492,455
Retail debt	15,175,014	—	15,175,014	17,342,186
Non-marketable bonds	1,742,344	—	1,742,344	3,094,626
Promissory notes	—	—	—	7,561
	408,926,518	(6,649,466)	402,277,052	407,167,118
Foreign debt:				
Marketable bonds	6,652,578	(502)	6,652,076	7,598,793
Canada Notes	489,950	501	490,451	497,009
Canada Bills	1,847,360	(10,440)	1,836,920	4,703,406
Euro Medium-Term Notes	1,627,701	500	1,628,201	1,502,792
	10,617,589	(9,941)	10,607,648	14,302,000
	419,544,107	(6,659,407)	412,884,700	421,469,118
Less: Government's holding			(50,000)	—
Less: Securities held for the retirement of unmatured foreign debt			(245,382)	(248,320)
			412,639,318	421,170,798
Cross-currency revaluation (receivables of $35,561,484; payables of $34,470,570)			(1,090,914)	(2,258,427)
			411,548,404	418,912,371
Market value			449,977,772	460,249,498

Contractual maturities of unmatured debt by currency over the next five years, at face value, are as follows:

Maturing year	Canadian dollars[1]	U.S. dollars[2]	Japanese yen[3]	Euro[4]	Total
			($ thousands)		
2008	163,436,971	2,215,675	—	85,301	165,737,947
2009	32,498,728	2,886,500	489,950	3,154,466	39,029,644
2010	20,822,669	182,306	—	1,542,400	22,547,375
2011	19,491,730	—	—	—	19,491,730
2012	21,547,208	—	—	—	21,547,208
2013 and beyond	151,129,212	60,991	—	—	151,190,203
	408,926,518	5,345,472	489,950	4,782,167	419,544,107

The effective average annual interest rates are as follows:

	2007	2006
	(in %)	
Treasury bills	4.20	3.52
Marketable bonds—domestic	5.24	5.26
Retail debt	3.54	3.84
Non-marketable bonds	10.37	10.02
Marketable bonds—foreign	5.14	5.13
Canada bills	5.11	4.63
Foreign currency notes	3.92	3.85

ii. Derivative financial instruments

a) Swap agreements

Government debt is issued at both fixed and variable interest rates and is denominated in Canadian dollars, U.S. dollars and other currencies. The government has entered into interest rate and cross-currency swap agreements to facilitate management of its debt structure. In the case of interest rate swap agreements, fixed interest rate funding has been converted to variable rates tied to the Banker's Acceptance rates of London Interbank Offered Rates (LIBOR). In the case of cross-currency swap agreements, Canadian-dollar and other foreign-currency debt has been converted into U.S. dollars or other foreign currencies with either fixed interest rates or variable

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1. Includes Treasury bills, marketable bonds, retail debt, non-marketable bonds, and promissory notes.
2. Includes marketable bonds and Euro Medium-Term Notes issued in U.S. dollars, Canada Bills, marketable bonds issued in New Zealand dollars that were swapped into U.S. dollars, and Euro Medium-Term Notes issued in Japanese yen that were swapped into U.S. dollars.
3. Includes Canada Notes.
4. Includes marketable bonds and Euro Medium-Term Notes issued in euro.

interest rates. As a normal practice, the government's swap positions are held to maturity. The government does not enter into swap agreements for speculative purposes.

The interest paid or payable and the interest received or receivable on all swap transactions are recorded as part of public debt charges. Unrealized gains or losses due to fluctuations in the foreign exchange value of the swaps are presented in the cross-currency swap revaluation account and are recognized as part of foreign exchange revenues in the Statement of Operations and Accumulated Deficit.

Swaps with contractual or notional principal amounts outstanding at March 31, 2007, are as follows:

	2007		2006	
Maturing year	Interest rate swaps	Cross-currency swaps	Interest rate swaps	Cross-currency swaps
	($ thousands)			
2007	—	—	—	2,346,928
2008	29,269	5,452,725	29,609	2,983,471
2009	1,385,520	2,705,375	1,401,600	2,653,411
2010	—	3,577,985	—	3,380,298
2011	—	2,743,881	—	2,571,392
2012	—	2,261,822	—	1,399,661
2013 and beyond	—	16,313,993		10,881,744
	1,414,789	33,055,781	1,431,209	26,216,905

b) Credit risk to swap agreements

The government manages its exposure to credit risk by dealing principally with financial institutions having credit ratings from at least two recognized rating agencies, one of which must be Moody's or Standard & Poor's. At the time of inception of the agreement, the credit rating of the institution must be at least A–.

The government does not have a significant concentration of credit risk with any individual institution and does not anticipate any credit loss with respect to its swap agreements.

The following table presents the notional amounts of the swap agreements by ratings assigned by Standard & Poor's:

	2007	2006
Standard & Poor's		
	($ thousands)	
AA+	9,649,000	2,896,000
AA	6,170,000	5,855,000
AA–	16,085,570	13,593,114
A+	2,393,000	5,304,000
A	173,000	—
	34,470,570	27,648,114

c) Fair value of financial instruments

The following table presents the carrying value and the fair value of financial assets and liabilities. Fair values are government estimates and are generally calculated using market conditions at a specific point in time where a market exists. Fair values of instruments with a short lifespan or of a non-negotiable nature are assumed to approximate carrying values. Fair values may not reflect future market conditions nor the actual values obtainable should the instrument be exchanged on the market. The calculations are subjective in nature and involve inherent uncertainties due to unpredictability of future events.

	2007			2006		
	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
			($ thousands)			
Foreign Exchange Accounts	44,178,099	44,058,945	–119,154	40,826,522	40,765,334	–61,188
Unmatured Debt	411,548,404	449,977,772	38,429,368	418,912,371	460,249,498	41,337,127

d) Fair value of financial instruments—Derivative financial instruments

The following table presents the fair value of derivative financial instruments with contractual or notional principal amounts outstanding at March 31, 2007:

	2007		2006	
	Notional Value	Fair Value	Notional Value	Fair Value
		($ thousands)		
Interest rate and cross-currency swaps	34,470,570	1,734,309	27,648,114	2,717,742

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

Fair value of the swap agreements are the estimated amount that the government would receive or pay, based on market factors, if the agreements were terminated on March 31. They are established by discounting the expected cash flows of the swap agreements by using fiscal year-end market interest and exchange rates. A positive (negative) fair value indicates that the government would receive (make) a payment if the agreements were terminated.

iii. Managing foreign currency risk and sensitivity analysis to foreign currency exposures

Interest rate and foreign currency risks are managed using a strategy of matching the duration structure and the currency of the Exchange Fund Account (EFA) assets and the related foreign currency borrowings of the Government of Canada. As at March 31, 2007, the EFA assets and the liabilities funding these assets were effectively "matched," which means that most price changes would affect both sides of the Statement of Financial Position equally. Assets related to the International Monetary Fund are only partially matched because they are denominated in Special Drawing Rights.

The Government of Canada's foreign currency assets and liabilities are held mainly in three currency portfolios: the U.S. dollar, the euro and the Japanese yen. At March 31, 2007, a one per cent appreciation of the Canadian dollar versus the U.S. dollar, the euro, and the Japanese yen would have resulted in a foreign exchange loss of $19 million due to the unmatched exposure of the U.S. dollar portfolio and in a foreign exchange loss of $4 million due to the unmatched exposure of the euro portfolio. The Japanese portfolio was matched in terms of currency exposure at March 31, 2007.

17. Other liabilities

Other liabilities consist of the following:

	2007	2006
	($ thousands)	
Deposits:		
Canada Eldor Inc. (Note 17a)	43,500	53,500
Canada Hibernia Holding Corporation (Note 17b)	78,478	74,740
Collateral deposits (Note 17c)	—	77,311
	121,978	205,551
Other Liabilities:		
Common school funds—Ontario and Quebec (Note 17d)	2,678	2,678
Foreign Claims Fund (Note 17e)	179	179
War Claims Fund—World War II (Note 17f)	2,861	2,861
Total Other Liabilities	**124,839**	**208,412**

The deposits from two wholly-owned subsidiaries of the Canada Development Investment Corporation are non-interest bearing and are repayable. The collateral deposit was received as credit support under a collateral agreement and paid interest at prime less 0.5%

a) Canada Eldor Inc.—Holdback—Privatization—Canada Development Investment Corporation

This account was established pursuant to subsection 129(1) of the *Financial Administration Act*. This special purpose money is to be used to meet costs incurred on the sale of Crown corporations and demand for payment by purchasers pursuant to the acquisition agreement and costs incurred by the Canada Development Investment Corporation in connection with their sale.

b) Canada Hibernia Holding Corporation—Abandonment reserve fund

This account was established to record funds that will be used to defray the future abandonment costs that will occur at the closure of the Hibernia field.

c) Swap collateral deposit

This account was established to record cash received as credit support under a collateral agreement with a financial institution. This amount was reimbursed in full by June 2006.

d) Common school funds—Ontario and Quebec

This account was established under *12 Victoria 1849*, Chapter 200, to record the proceeds from the sale of lands set apart for the support and maintenance of common schools in Upper and Lower Canada, now Ontario and Quebec. Interest of $133,889—apportioned on the basis of population—is paid directly to these provinces on a semi-annual basis, at the rate of 5 per cent per annum, and is charged to interest on the public debt.

e) Foreign claims fund

This account was established by Vote 22a, *Appropriation Act No. 9, 1966*, to record *(a)* such part of the money received from the Custodian of Enemy Property, proceeds of the sale of property, and the earnings of property and *(b)* all amounts received from governments of other countries pursuant to agreements entered into after April 1, 1966, relating to the settlement of Canadian claims and also records payment of claims submitted, including payment of the expenses incurred in investigating and reporting on such claims.

f) War claims fund—World War II

This account was established by Vote 696, *Appropriation Act No. 4, 1952*, to record moneys received from the Custodian of Enemy Property or from other sources and payments *(a)* to eligible claimants for compensation in respect of World War II; *(b)* of a supplementary award amounting to 50 per cent of the original award (PC 1958-1467, October 23, 1958); and *(c)* of expenses incurred in investigating and reporting on claims. The War Claims Commission was established to enquire into and report on claims made by Canadians arising out of World War II for which compensation may be paid from this or any other fund established for the purpose. The expenses of the Commission are chargeable hereto.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

18. Employee benefits

a) Pension benefits

The Department of Finance Canada's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 per cent per year of pensionable service times the average of the best five consecutive years of earnings. The benefits are integrated with the Canada/Quebec Pension Plan benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. The expense amounted to $8,668 thousand in 2006–07 ($9,210 thousand in 2006), which represents approximately 2.2 times (2.6 times in 2006) the contributions made by employees.

The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

b) Severance benefits

The Department of Finance Canada provides severance benefits to its employees based on eligibility, years of service, and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	2007	2006
	($ thousands)	
Accrued benefit obligation, beginning of year	12,995	11,929
Expense for the year	2,019	2,438
Benefits paid during the year	(1,410)	(1,372)
Accrued benefit obligation, end of year	13,604	12,995

19. Equity of Canada

The Department of Finance Canada includes in its revenues and expenses the transactions of certain consolidated other liabilities. The Government of Canada's own legislation requires that the revenues of these accounts be earmarked and the related expenses be charged against such revenues.

	2007	2006
	($ thousands)	
Equity, excluding consolidated other liabilities	(373,853,054)	(383,932,731)
Consolidated other liabilities:		
Canadian Commercial Bank and Northland Bank Holdback Account (Note 19a)	246,223	246,223
Investors' Indemnity Account (Note 19b)	45	45
	246,268	246,268
Equity	(373,606,786)	(383,686,463)

a) Canadian Commercial Bank and Northland Bank Holdback Account

This account was established to record the amount held from the recovery of monies received on the windup of the Canadian Commercial Bank and Northland Bank. The monies are used to pay claims from depositors of Canadian Commercial Bank, CCB Mortgage Investment Corporation, and Northland Bank pursuant to the *Financial Institutions Depositors Compensation Act*.

b) Investors' Indemnity Account

This account was established pursuant to the *Financial Administration Act* for the payment of any losses sustained by subscribers of Government of Canada securities who have paid all or part of the purchase price but did not receive the security or repayment of the amount paid and losses sustained by any person in the redemption of securities.

20. Contingent liabilities

a) Litigation

In the normal course of its operations, the Department of Finance Canada becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded on the Department's financial statements.

As at March 31, 2007, the Department has contingent liabilities of $207 million ($127 million in 2006) based on the Department's legal assessment of the potential exposure. The existence and amount of the liability depend upon the future outcome of these legal actions, which are not currently determinable. No accrual for these contingent liabilities has been made in the financial statements.

b) Callable share capital

The Department has callable share capital in certain international organizations that could require payments to those organizations. At March 31, 2007, callable share capital is $6,613 million ($6,689 million in 2006).

c) Loan guarantees

The Department of Finance Canada guarantees loans insured by the Mortgage Insurance Company of Canada and the Genworth Financial Mortgage Insurance Company Canada. At March 31, 2007, the contingent liability related to the guarantees is $1,706 million ($962 million in 2006). Losses on loan guarantees are recorded in the accounts when it is likely that a payment will be made to honour a guarantee and where the amount of the anticipated loss can be reasonably estimated. The amount of the allowance for losses is determined by taking into consideration historical loss experience and current economic conditions.

The Department manages guarantees to the Canadian Wheat Board for the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sale Program for an amount of $1,541 million ($2,795 million in 2006) and a portion of credit sales made under the Agri-Food Credit Facility, which amounted to $65 million ($56 million in 2006).

The Department administers the government's compensation arrangement regarding Export Development Canada's sovereign loans and guarantees. Under this arrangement, the government fully compensates Export Development Canada for the cost of existing debt reduction commitments and shares losses with Export Development Canada on new debt reduction on obligations contracted before March 31, 2001. The government has also agreed to share losses with Export Development Canada in the event of unilateral debt reduction on debts contracted after March 31, 2001. Total funds covered under this agreement amount to $1,780 million ($2,297 million in 2006).

A total liability of $500 million ($873 million in 2006) was recorded.

21. Contractual obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments when the services or goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

	2008	2009	2010	2011 and thereafter	Total	2008
			($ thousands)			
Undisbursed Loans and Advances						
International Development Association	318,000	0	0	0	318,000	318,000
Transfer Payments						
International Development Association	0	25,000	29,000	36,000	90,000	0
African Development Fund	7,000	8,000	10,000	13,000	38,000	7,000
Total	325,000	33,000	39,000	49,000	446,000	325,000

22. Related party transactions

The Department is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, during the year, the Department received services that were obtained without charge from other government departments as presented below.

Services provided without charge

During the year, the Department received without charge from other departments accommodation, legal fees, and the employer's contribution to employee health and dental insurance plans. These services without charge have been recognized in the Department's Statement of Operations as follows:

	2007	2006
	($ thousands)	
Accommodation	9,718	9,762
Employer's contribution to employee health and dental insurance plans	4,898	4,951
Legal services	4,158	2,128
Total	18,774	16,841

The Government of Canada has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all departments without charge. The cost of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada, are not included as an expense in the Statement of Operations.

23. Comparative Information

Comparative figures have been reclassified to conform to the current year's presentation.

Table 13: Response to Parliamentary Committees and Audits and Evaluations for the 2006–07 Fiscal Year

Response to Parliamentary Committees

1. Standing Committee on the Status of Women

Government Response to a Report entitled *Gender-Based Analysis: Building Blocks for Success*

The Standing Committee presented reports to the House in April 2005 and in May 2006.

In July 2005, in response to the recommendations contained in the first report, the Department of Finance Canada committed to appoint a gender-based analysis (GBA) champion, to conduct a pilot project to train analysts and managers in GBA, and to continue to hold pre-budget consultations with various groups. The Department has fulfilled all three commitments.

The Department responded, in August 2006, to the second report and committed to post examples of good GBA analysis on the Department's internal website, to provide GBA training workshops to branches other than Tax Policy, to include GBA in the training curriculum for new employees, and to report on progress made in its departmental performance report (DPR). The Department is working toward fulfilling these commitments and will report on all of them in next year's DPR.

2. Standing Committee on Finance

Report 14—Study on Income Trusts (adopted by the Committee on February 22, 2007; presented to the House on February 28, 2007)

Government Response: 14th Report of the Standing Committee on Finance, *Taxing Income Trusts: Reconcilable or Irreconcilable Differences?* (Presented to the House on July 18, 2007)

Response to the Auditor General of Canada, including to the Commissioner of the Environment and Sustainable Development (CESD)

Advertising and Public Opinion Research (February 2007 Status Report, Chapter 1)

See http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20070201ce.html

Expenditure Management System at the Government Centre (November 2006, Chapter 1)

See http://www.oag-bvg.gc.ca/domino/reprots.nsf/html/20061101ce.html

Reviews, Audits, and Evaluations

In 2006–07, the Tax Policy program published two reports on the impact of the tax system on aspects of the Canadian economy. One of the reports compared marginal effective tax rates across countries in the manufacturing sector and their impact on business investment, while the other report examined the impact of the income tax system on the decision of young Canadians to undertake post-secondary education. The reports are available in the 2006 Tax Expenditures and Evaluations publication (see http://www.fin.gc.ca/toce/2006/taxexp_e.html).

An external review of Receiver General cash management was completed, which was generally favourable with respect to the government's current polices and practices in this areas. The evaluation report is posted on the Department of Finance Canada's website (see http://www.fin.gc.ca/efa/Report2006_e.html).

Reviews, Audits, and Evaluations

As part of the 2005–06 fiscal year Risk-Based Audit Plan, the Department of Finance Canada's Audit and Evaluation Committee authorized a review of administrative controls over international obligations and subscription payments. The review was undertaken during fiscal year 2006–07 and the report is scheduled to be tabled for approval to the Committee in fiscal year 2007–08.

An external evaluation of the Exchange Fund Account completed in 2006 concluded that the government's policies and practices are sound and in keeping with those of other comparable countries. The evaluation report is available on the Department of Finance Canada's website (see http://www.fin.gc.ca/efa/EFA2006_e.html).

The CPP triennial review was completed in June 2006. Federal and provincial ministers of Finance reviewed the CPP Investment Board's accountability and governance framework in the context of the government's proposals for the *Federal Accountability Act*. Ministers reviewed in particular the areas of codes of conduct, conflict of interest, and disclosure policies and practices and concluded that they meet or exceed practices of public- and private-sector pension funds. Ministers also endorsed the CPP Investment Board's fiduciary investment mandate and its *Policy on Responsible Investing* adopted in October 2005. On an ongoing basis, the CPP Investment Board is achieving strong results and improving the sustainability of the CPP.

A general link to evaluations conducted as part of the Treasury Evaluation program (TEP) can be found on the web (see http://www.fin.gc.ca/access/audit_e.html#Treasury).

Internal Audits

- Audit of Administrative Controls Over Financial Debt Instruments: Foreign Debt Portfolio and Foreign Currency Asset Reserve (completed and posted on the Web at http://www.fin.gc.ca/access/audit_e.html)
- Audit of Accounts Payable: A preliminary survey has been completed; the detailed examination phase has been deferred until 2008–09.

Other Projects

- Review of Administrative Controls Over International Obligations and Subscription Payments (to be tabled for approval in the fall of 2007)
- Review of Translation and Editing Services (to be tabled for approval in the fall of 2007)
- Development of the Department of Finance Canada Risk-based Audit Plan (completed)

Table 14: Sustainable Development Strategy

"Sustainable development" is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs, and it is a key commitment of all federal departments. In 1995, the *Auditor General Act* was amended to require each department to prepare and update a sustainable development strategy (SDS). These strategies are tabled in the House of Commons, and the Commissioner of the Environment and Sustainable Development monitors the progress toward their implementation.

An SDS is intended to outline a department's goals and action plans for integrating sustainable development into its policies, programs, and operations over three-year planning periods. The first Department of Finance Canada SDS, which was tabled in the House of Commons in 1997, helped show how the federal government's fiscal and economic plans contributed to sustainable development in Canada, outlined the Department's approach and contribution to international sustainable development issues, and showed how the Department would improve environmental performance in its operations.

The Department of Finance Canada's updated strategy for 2004–06 was completed in December 2003. It built upon the solid foundation provided by the previous two versions and focusses on those areas where the Department can make unique and important contributions to sustainable development in Canada and around the world. The Department's 1998–2000, 2001–03, and 2004–06 strategies can be found on the web (see http://www.fin.gc.ca/purl/susdev-e.html).

The Department has implemented a renewed management strategy for the SDS. This consists of a departmental sustainable development champion, a core working group of officials with representatives from all branches, and documented reviews of sustainable development progress and planning by a senior management committee. The Department has also continued to raise awareness of the departmental process for fulfilling the Department's obligations under the *Cabinet Directive on Strategic Environmental Assessment*.

Strategic Outcomes

The Department of Finance Canada confirmed two key goals in its 2004–06 SDS: to promote intergenerational equity through effective fiscal management and to continually strive to more fully integrate economic, social, and environmental considerations and objectives into policy making.

Key Issues

To help focus on these goals, the 2004–06 SDS identifies four themes or key issues on which to base departmental actions over the next three years: Building the Future, Integrating the Economy and the Environment, Integrating Sustainable Development into the Global Economy, and Greening Operations. The Department's action plan for sustainable development sets out a number of objectives and targeted actions in each of these four areas over the planning period. The following describes the Department's four key issues and how they relate to the two broad sustainable development goals:

Building the future highlights how the Department contributes to intergenerational equity by demonstrating the sustainable development impacts of the government's key priorities in areas where the Department has a mandated responsibility. Commitments in this area include improving fiscal health, solidifying major social programs, and implementing some of the government's key environmental sustainable development priorities.

Integrating the economy and the environment involves building on the Department's analytical foundation and broadening its knowledge base in support of progress in integrating environmental and economic considerations into tax, spending, and related policies. Commitments in this area include expanding analytical abilities, conducting further analytical work on environmental issues such as climate change, and raising awareness of the departmental process for implementing the 1999 *Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals*.

Integrating sustainable development in the global economy involves participating in efforts to address globalization of the world economy and the links to environmental concerns and international competitiveness. Commitments in this area include continuing to examine the linkages between trade and the environment and increasing knowledge of the relationship between financial services and international environmental practices. The Department of Finance Canada will also continue to participate in preparing for and negotiating international environmental agreements.

Greening operations involves identifying and acting to address the negative environmental impacts of the Department's operations and promoting best practices within the Department.

Targets and Reporting

A detailed outline of the Department's objectives, targets, and results for planned activities in 2006–07 to implement the 2004–06 SDS is available at http://www.fin.gc.ca/purl/susdev-e.html.

A detailed outline of the Department's objectives, actions, and planned results in its SDS in 2007–08 and the highlights of its new 2007–09 SDS are available on the web (see http://www.fin.gc.ca/purl/susdev-e.html).

Table 15: Travel Policies

The Department of Finance Canada follows and uses the Treasury Board policy parameters.

Comparison to the Treasury Board *Travel Directive*, Rates and Allowances

The Department of Finance Canada follows and uses the Treasury Board policy parameters.

Section IV: Other Items of Interest

Renewal of the Human Resources Plan

Over the reporting period, 2006–07, the Department of Finance Canada worked on the development and implementation of its integrated Human Resources (HR) Plan. The integrated HR plan is designed to align with the departmental business planning process, as well as with the overarching goal of creating a workplace that places the highest value on its "human" resources. The Plan, updated in 2006–07 through extensive internal consultations and employee feedback, is based on three guiding principles:

- inclusiveness and development of policies that apply to all occupational groups in the Department;
- consistency across all branches, recognizing that different branches have different needs and priorities; and
- a shared responsibility among all employees and managers for making the Department a truly rewarding place to work.

The HR Plan identified four priority areas: 1. Official Languages; 2. Employee Development; 3. Communication; and 4. Work-life Balance.

1. Official languages

The objective is to continue development and implementation of a departmental strategy for building a bilingual workplace. Accomplishments included the following:

- finalizing the departmental official languages policy; and
- finalizing the corporate action plan for official languages.

2. Employee development

The objective is to further enhance and communicate a corporate strategy for developing employees. Key initiatives included the following:

- developing a departmental continuous learning policy;
- developing, communicating, and implementing a corporate action plan, including competency guides, core curriculum, database of training courses, improved communication of developmental opportunities, follow-up on succession planning, the Speakers Series, and networking events, mentoring program expansion, and harassment and discrimination awareness.

3. Communication

The objective is to foster a culture of better communication and information and knowledge sharing. Key activities included the following:

- establishing branch management advisory groups;
- encouraging regular branch, division, and section meetings;
- encouraging managers to share access to their agendas where possible;
- communicating performance management agreement information;
- improving effectiveness of the Town Hall as a communication vehicle; and
- improving the ease of use of the InfoSite.

4. Work-life Balance

The objective is to continue to encourage a supportive work environment in the Department. Key initiatives included the following:

- developing and communicating departmental overtime guiding principles (consistent with collective agreements);
- identifying and sharing best HR practices;
- encouraging effective sign-off practices; and
- expanding health and well-being initiatives.

Modernizing the Staffing Process at the Department of Finance Canada

The Integrated HR Plan was prepared in response to the legislative changes brought about by the *Public Service Employment Act* (PSEA). The PSEA is intended to modernize staffing, support collaborative labour relations, clarify managerial roles, strengthen accountability, and provide employees at all levels with access to continuous learning opportunities. In particular, the modernization of the staffing process, in accordance with the new PSEA, allows for greater flexibility and accountability for staffing decisions by:

- clarifying responsibilities and eliminating inefficiencies in the staffing process while retaining the core values of merit, non-partisanship, fairness, access, and transparency;
- implementing a merit-based staffing system that allows managers to hire qualified and competent individuals more quickly; and
- delegating increased responsibilities for staffing to the deputy head of each department.

A component of the Department of Finance Canada's Integrated HR Plan is the provision of targeted staffing strategies for each branch within the Department. The branch-specific staffing strategies are based on current and future business needs, include Employment Equity and Official Language action plans, and identify particular gaps and challenges for the approaching fiscal year so as to provide managers with a general framework from which to base their staffing activities.

Integrated Planning and Resource Allocation Framework

The Department of Finance Canada developed an integrated planning and resource allocation framework during 2005–06 that was successfully implemented for the first time in the 2006–07 fiscal year. Main elements of the framework included priority setting, followed by business planning, which provided a tool for program activities to link priorities, work planning, results and performance measurement to both financial and human resources requirements and also to identify potential risks and mitigation strategies. The framework has been a key, internal planning tool that has enabled the Department to better report and demonstrate accountability for results and resources to Parliament and Canadians. Further enhancements are planned to fully integrate aspects of HR planning.

List of Statutory Reports and Other Departmental Reports

Annual Financial Report of the Government of Canada and Fiscal Reference Tables

Annual Report to Parliament on the Operations of the Exchange Fund Account

Canada Investment and Savings Annual Report (http://www.csb.gc.ca)

Canadian Federal Budget

Debt Management Report

Debt Management Strategy

Departmental Performance Report

Economic and Fiscal Update

Economy in Brief—Quarterly

Fiscal Monitor—Monthly

Government of Canada Securities—Quarterly

Report on Operations under the Bretton Woods and Related Agreements Act

Report on Operations under the European Bank for Reconstruction and Development Agreement Act

Report on Plans and Priorities

Sustainable Development Strategy

Tax Expenditures and Evaluations

Contacts for Further Information and Websites

Home page: http://www.fin.gc.ca

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